Pt. 1

ANNUAL REPORT 2004

Daylight Energy Trust

Executing through experience and technical expertise

The **Annual Meeting** of Unitholders of Daylight Energy Trust will be held on Thursday, May 26, 2005 at 10:00 a.m. in the Eau Claire Room at the Westin Hotel, 320 – 4th Avenue S.W., Calgary, Alberta. All Unitholders and interested parties are invited to attend.

Contents

Daylight Energy Trust's Annual Report should be read in conjunction with its Financial Statements, Management's Discussion and Analysis and Annual Information Form which are available on the SEDAR website at **www.sedar.com** and Daylight Energy Trust's website at **www.daylightenergy.ca**.

This Annual Report contains certain forward looking statements and reserve information that involve substantial known and unknown risks and uncertainties, certain of which are beyond Daylight Energy Trust's control. The estimates of reserves for individual properties may not reflect the same confidence level as estimates of reserves at the Daylight Energy Trust level due to the effects of aggregation. The reader is directed to Daylight Energy Trust's Financial Statements, Management's Discussion and Analysis and Annual Information Form for a full disclosure of the risks and uncertainties. Daylight Energy Trust's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and reserve information; accordingly, no assurances can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Daylight Energy Trust will derive.

Creating value from a natural gas-weighted portfolio of high quality and high potential assets.

It's about unlocking value,

Technical proficiency creates value – it's the **people**

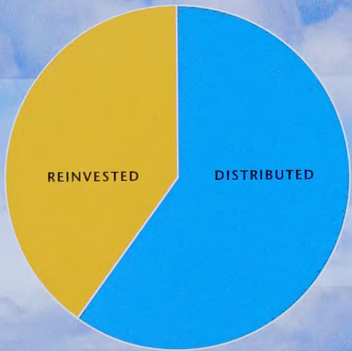
Daylight's team founded and built its predecessor exploration company, Midnight Oil & Gas Ltd. Our team has delivered repeated, high-impact drill-bit successes while maintaining low operating costs. Daylight has an extensive seismic database and a large geological archive to support value-creating activities throughout its property base.

Low-risk opportunity base delivers value – it's the **portfolio**

Daylight's opportunity base includes years of development projects and large-scale exploitation prospects. The Trust's current inventory of over 200 drillable locations creates a multi-year development platform. Daylight has budgeted to invest $45 million and drill 47 net wells in 2005.

Active management adds value – it's the **potential**

Daylight's senior management team provides decades of proven expertise matched with this high potential opportunity base that is tailor-made for today's energy trust business model of active drilling and development. The key to unlocking the additional value is Daylight's hands-on approach.



60% of cash flow
distributed.

40% of cash flow
reinvested.

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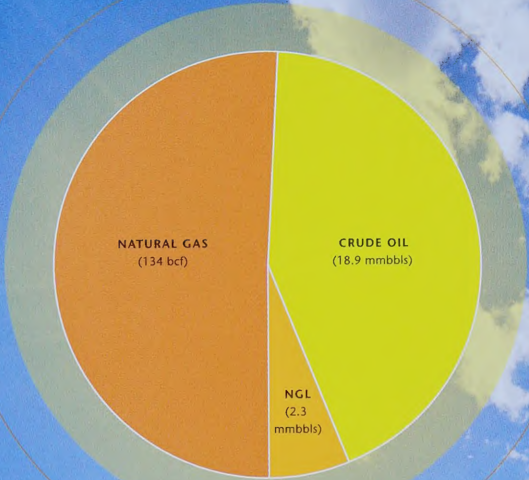
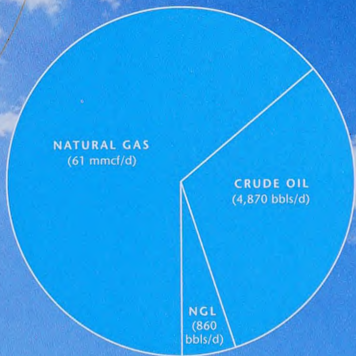
and high quality, high potential assets that ensure value. It's the properties...

At the heart of Daylight's asset base is a group of high quality, opportunity-rich, operated natural gas producing properties acquired concurrent with the formation of Daylight. The Trust brings a team that has identified extensive potential on these previously under-funded, under-exploited assets. Daylight's assets include significant opportunities to add long-life natural gas reserves at prospects ranging from the large Cretaceous gas pools within its West Central core area to the Cadomin "resource" play of its Deep Basin area.

Daylight's natural gas opportunities are complemented by large, established light and heavy gravity crude oil pools. These oil properties are amenable to low-risk exploitation and optimization activities, allowing reduction in operating costs and significant extension in reserve life.



RESERVES BY COMMODITY*
(proved + probable)



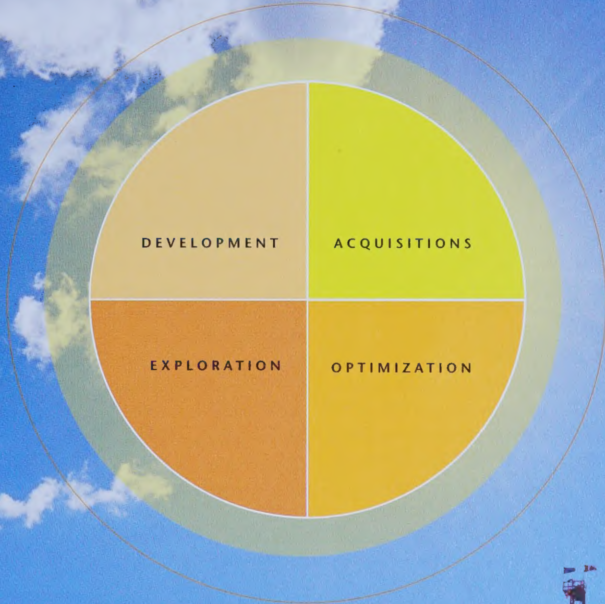
AVERAGE DAILY
PRODUCTION BY COMMODITY**

PRODUCTION BY CORE AREA**

* Proforma Flowing Energy acquistion at December 31, 2004 which was effective April 2005.
** Following Flowing Energy acquisition effective April 2005.

and focused, hands-on operations.

Daylight's goal is to maintain its production level internally, offsetting future volume declines through reinvestment of a portion of cash flow, levering the untapped potential of this asset base into greater value for Unitholders. Daylight's program will add value through: **efficiencies** – reductions in per unit operating cost, **enhancements** – increased recovery of original-oil-in-place ("OOIP"), **exploitation** – natural gas development through downspacing and recompletions, and **exploration** – participation in emerging regional plays through the Trust's 430,000 net acres of undeveloped lands. This may include selected joint venture participation with the new Midnight exploration company. The Daylight team's extensive expertise, combined with its opportunity-rich asset base, creates a strong foundation to increase cash flow, sustain distributions and improve net asset value for our Unitholders.



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We are a singular opportunity to participate in a unique trust that leverages technical expertise and high potential opportunities.

Fred Woods
Executive Chairman

We are pleased to present Daylight Energy Trust's first annual report to the Unitholders. Daylight Energy Trust is an actively managed, sustainable trust. The business model for Daylight is built on a reputable high-end team with strong technical expertise and business execution skills combined with a quality property base containing large exploitable opportunities.

Daylight Energy Trust was formed in November 2004 from the combination of Midnight Oil & Gas Ltd. and Vintage Petroleum Canada, Inc. ("Vintage"). The bringing together of a proven high-end technical team from Midnight and the quality asset base of Vintage created an ideal combination of opportunities and expertise.

Today, Daylight is a mid-sized Canadian oil and natural gas trust endowed with a number of competitive advantages. The Trust's under-exploited asset base offers an array of value-creating opportunities. These opportunities include: operating cost reduction programs; enhanced recovery and optimization projects; low-risk exploitation by downspacing and recompletions; and development drilling of deep gas prospects with long-life reserves potential. Daylight has a team with a successful track record in the Trust's targeted operating areas – the multi-zone areas of West Central Alberta and the Peace River Arch. Beyond these numerous value added opportunities, Daylight has the added potential of an exceptionally large land base with more than 430,000 net undeveloped acres in its core areas.

Daylight's business model is an actively managed, sustainable trust founded on internal generation of development and exploitation projects. Funding is derived from internal cash flow after providing for a conservative distribution payout ratio. We have already identified years worth of opportunities in Daylight's under-exploited asset base, which we believe can add new reserves and production sufficient to offset annual production declines. This aspect of the business model will from time to time be augmented by strategic acquisitions that meet our rigorous criteria.

The first such opportunity, the acquisition of Flowing Energy Corporation ("Flowing"), closed April 5, 2005. The acquisition added to Daylight's production, reserves, reserve-life-index and cash flow per unit, and was accretive to cash available for distribution. During April 2005, Daylight's production is approximately 15,900 boe per day, a significant proportion of which is liquids-rich natural gas from deeper, longer-life reservoirs.

Daylight's Asset Base and Technical Team

Daylight's fundamental competitive advantage is the matching of an experienced technical team with an opportunity-rich asset base. Prior to Daylight's creation, members of the current management team launched and operated Midnight Oil & Gas Ltd. from July 2000 until last fall's trust conversion. The Midnight team delivered significant growth, on a per share basis, in reserves, production, cash flow and undeveloped land. Midnight's results were driven by drill bit success, primarily by pursuing multi-zone gas opportunities in West Central Alberta and Deep Basin gas opportunities in the Peace River Arch area. Midnight's discoveries and plays are an integral part of the go-forward program at Daylight.

The seven members of Daylight's senior management team each have 20 to 30 years' experience in their respective fields and the Trust's core areas, including a recognized expert in the specialized area of sedimentology and Deep Basin geology. In addition, all members of the Board of Directors have a similar level of experience in the oil and natural gas industry and offer experience in founding and operating companies, executing business plans and conducting major transactions. Daylight thus brings a strong leadership group to develop a previously, capital-constrained asset base that offers depth and breadth of opportunities beyond that typical for an energy trust.

We have already identified a range of opportunities. This includes "low hanging fruit," low-risk and low-cost opportunities at Little Bow and Long Coulee, where minimal investments can add volumes and reduce unit costs by improving efficiencies. Moving forward, Sinclair, Sturgeon Lake and Freeman River offer larger-scale oil exploitation opportunities that are capable of adding substantial volumes through exploitation programs including waterfloods and multi-well development drilling programs. In addition, we have "resource plays" – tight gas plays and coal bed methane. Some of the opportunities include the Cadomin Formation on our Elmworth and Wapiti lands, a Deep Basin reservoir of "tight" gas that, when drilled and completed correctly, yields wells that produce steadily for decades. Our coal bed methane potential includes large land holdings at Chigwell, Alexander and Windfall. Finally our bread-and-butter prospects in our West Central area are multi-zone, liquids-rich gas targets that flow at high rates, generating strong cash flow.

The Daylight technical team has a demonstrable record of success with such plays, which are not common domain for traditional energy trusts. While this approach brings technical challenges, it also offers operating "elbow room" away from the typically intense competition and high prices encountered when pursuing traditional trust plays. Deep Basin prospects, for example, cannot be pursued by seismic, but require experience and diligent, sophisticated geological work. This is beyond the scope of many energy trusts – but it is exactly what we did with great success at Midnight.

Major Events in 2004

Prior to the acquisition of Vintage, Midnight Oil & Gas Ltd. enjoyed continued drilling success through the first nine months of 2004 with 28 gross (17.6 net) wells and an overall 97 percent success rate. Midnight Oil & Gas Ltd. increased production throughout 2004, reaching 3,750 boe per day and a market capitalization of $250 million prior to acquiring Vintage.

The year's pivotal event was Midnight Oil & Gas Ltd.'s acquisition of Vintage and the creation of Daylight Energy Trust and Midnight Oil Exploration Ltd. The $350 million acquisition, which closed November 30, 2004, added approximately 11,000 boe per day in production and proved plus probable reserves of 28 million boe with a large undeveloped land base of 420,000 net acres. The net acquisition price of approximately $25,000 per daily flowing boe was widely recognized as the lowest-cost, high-value acquisition in 2004. The acquisition and Trust conversion was a tremendous value add for shareholders and a new model for the industry.

Daylight's plan of arrangement was approved by a unanimous vote of shareholders on November 29, 2004. Daylight's units began trading on the TSX on December 2, 2004. In December, monthly cash distributions were initiated at $0.12 per unit. Production in December was 13,228 boe per day, generating cash flow of approximately $7 million. The plan of arrangement

Anthony Lambert
President, Chief Executive Officer and Director

Peter Harrison
Director

Rick Orman
Director

Jeff Tonken
Director

Chris von Vegesack
Corporate Secretary

also created a new exploration company, Midnight Oil Exploration Ltd., which received the combined entity's higher risk exploration lands plus a modest production base associated with Daylight in the West Central area, which includes joint ownership of infrastructure.

Financial Matters and Distribution Policy

Historically, Midnight Oil & Gas Ltd.'s track record included top-decile unit operating costs and product prices, delivering consistently high netbacks. Operating costs for the former Vintage assets are considerably higher, resulting in lower netbacks. We have identified numerous areas of investment that will result in lower operating costs. This creates financial upside opportunities by applying unit-cost-reduction efficiency measures. In addition, many of our opportunities for production growth are on Daylight's gas portfolio, which will also promote future reductions to unit operating costs.

Daylight intends to fund its internal development program using retained cash flow. This is more capital-efficient for Unitholders than paying out all of our cash flow and externally financing the drilling activities. Daylight has adopted a more conservative distribution policy, relative to its peers, aiming for an average long-term payout ratio of approximately 60 percent of cash flow. The current payout ratio is below 60 percent, which is appropriate given our large opportunity base and very high commodity prices.

Hedging a percentage of production is an accepted tool to provide downside protection to near-term cash flow and protect the integrity of capital budgets relying on internal cash flow. This hedging program will be balanced with the desire for exposure to price upside. Daylight's production remained completely unhedged in 2004 and the first quarter of 2005, creating full exposure to the year's commodity price upside and avoiding hedging losses like those experienced by other Trusts. Going forward, the Trust plans to implement some short-term hedges with terms of less than one year, covering up to 30 percent of its production volumes.

Subsequent Events in Early 2005

On February 9, 2005 Daylight announced the acquisition of Flowing. The $53.1 million transaction (including assumption of $19.5 million in debt) was accomplished by exchanging one Daylight Trust unit for every 13.45 Flowing common shares on April 5, 2005. This transaction resulted in an acquisition cost of $22,750 per flowing boe or $4.60 per bbl of proved plus probable reserves. The addition of Flowing included approximately 2,100 bbls per day of conventional heavy oil production, adding more balance to Daylight's production mix. We forecast this acquisition will increase our estimated annual cash flow by $13 million or $0.10 per unit and reduce our distribution payout ratio to less than 60 percent. The

addition of 12.7 million bbls in proved plus probable reserves increases Daylight's combined reserve-life-index (RLI) by one year. The transaction also included more than $50 million in tax pools.

The Flowing asset base consists of a single producing field in east central Alberta which becomes part of Daylight's low-risk "East 5" properties, adding longer-life production that can be maintained with minimal capital. At the time of the transaction, heavy to light oil price differentials were very high, making it a counter-cyclical transaction with the potential for higher realized commodity prices. The property also has the opportunity to add substantial volumes through in-fill drilling plus further development of a recent extension to the existing pool. We will add these new opportunities to our inventory, and exploit them under optimum market circumstances.

2005 Plans and Outlook

Moving into 2005, Daylight has identified areas for tremendous improvement through unit cost reductions, production increases and reserve additions. We have a wealth of opportunities to create value for our Unitholders. The added potential from this massive opportunity base, combined with one of the highest current yields in the trust sector, make Daylight a very attractive investment vehicle.

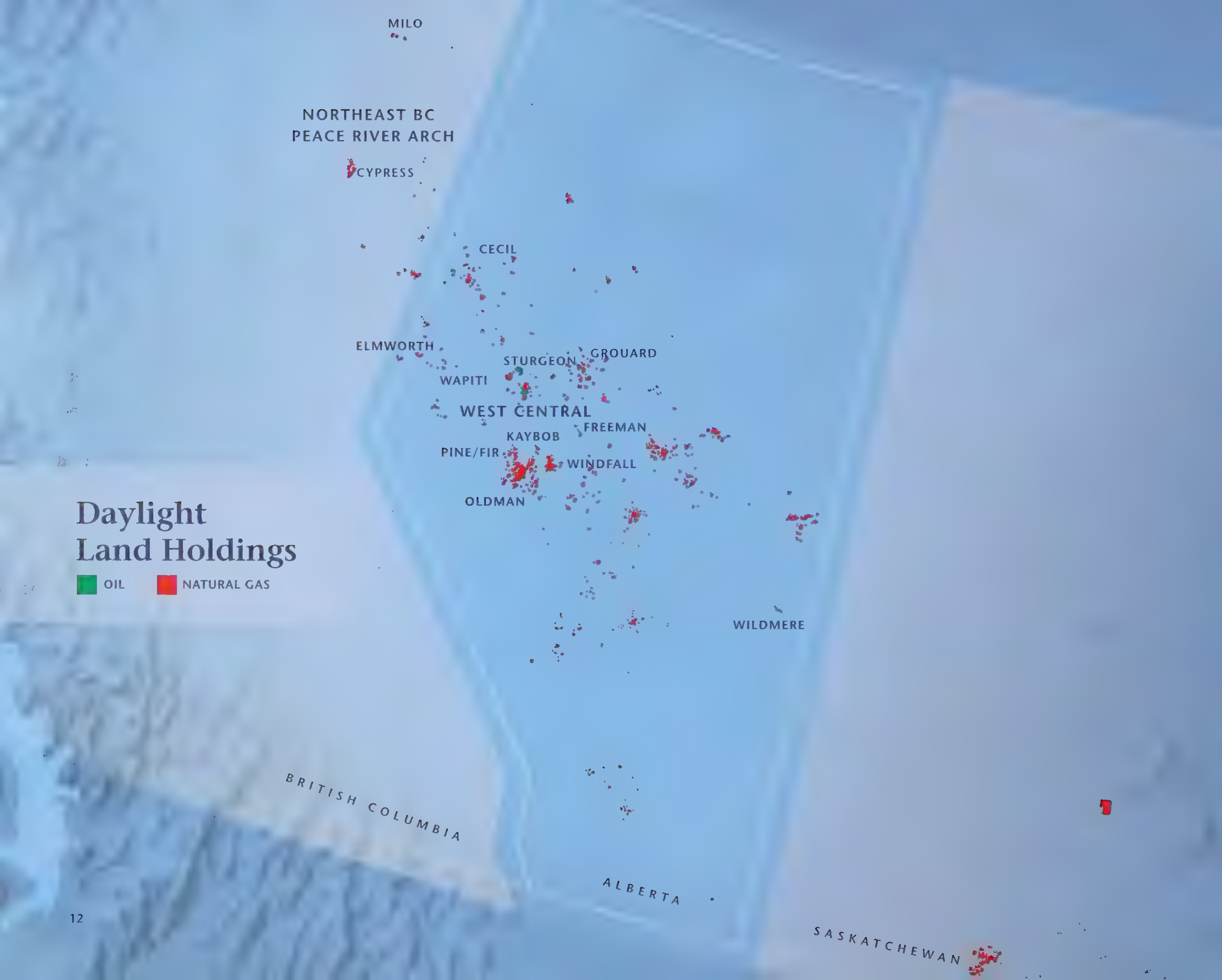
With a 2005 capital budget of $45 million, Daylight has an active year ahead. Development and exploitation drilling of approximately 90 gross (47 net) wells are planned, with a focus on large-reserve, multi-zone Cretaceous natural gas opportunities at Pine/Fir and Oldman in West Central Alberta. Daylight will also continue development of its deep, tight gas play at Elmworth and pursue carefully selected opportunities in the Peace River Arch. With a view to reducing operating costs and increasing netbacks, we will conduct a broad program of optimization and exploitation throughout our asset base. The 2005 capital budget is based on average commodity prices of US$48 per bbl of WTI crude oil and Cdn$6.60 per mcf of natural gas at AECO. The budgeted commodity prices are well below the current 12 month forward strip of over US$50 per bbl of WTI crude oil and Cdn$8.00 per mcf of natural gas at AECO.

Daylight's current production of approximately 15,900 boe per day and the planned current capital program of $45 million put Daylight in position to generate $115 million in cash flow. The capital program includes contingency plans to expand our drilling program should realized commodity prices exceed our forecast budget. Our conservative distribution policy, with a current payout ratio of approximately 56 percent, provides sufficient cushion to maintain monthly distributions, subject to a material change in cash flow.

We are very excited about the opportunities we see in the energy sector at this time. We are also very excited about the tremendous potential we see at Daylight in the matching of our high-end team with our substantial opportunity base. We look forward to delivering solid and sustainable value to the Daylight Unitholders.

On behalf of the Board of Directors,

Fred Woods
Executive Chairman
April 6th, 2005


MILO
NORTHEAST BC
PEACE RIVER ARCH
CYPRESS
CECIL
ELMWORTH
STURGEON
GROUARD
WAPITI
WEST CENTRAL
FREEMAN
KAYBOB
PINE/FIR
WINDFALL
OLDMAN
WILDMERE
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
Daylight
Land Holdings
OIL
NATURAL GAS

Natural Gas Exploration and Development

Daylight's production is 64 percent natural gas-weighted, averaging approximately 61 mmcf per day in early April 2005. The Trust's natural gas is derived mainly from higher-rate, longer-life, liquids-rich pools at depths up to 3,000 metres in multi-zone areas along Alberta's W5 and W6 corridors.

A key objective of Daylight's business model is to establish a niche of operations in the targeted natural gas regions, seeking to create a competitive advantage for the Trust. These plays require technical proficiency and geological understanding, creating a barrier to entry by others. If managed correctly, such pools can generate higher operating margins and longer reserve life than the lower-rate shallow gas plays pursued by many traditional trusts. Daylight's management team has extensive experience and a proven track record of profitably adding reserves and production in Daylight's chosen natural gas operating areas.

With a large undeveloped land base rich in natural gas opportunities, plus access to key infrastructure, the Trust's operations and capital expenditures will focus on natural gas production optimization, low-risk exploitation, development drilling and, together with the new Midnight exploration company, higher-potential drilling opportunities.

> **West Central Alberta**
Fir/Pine Creek
Oldman

> **Peace River Arch Deep Basin**
Elmworth
Northeast BC
Cypress
Milo

Oil Exploitation

Crude oil and natural gas liquids production is averaging approximately 5,730 bbls per day in early April 2005, representing 36 percent of the Trust's volumes. This includes a mix of natural gas liquids, premium-priced light crude and conventional heavy oil from a large, long-life reservoir acquired via the Flowing transaction on April 5, 2005.

Daylight's oil properties provide a low-risk platform to apply our high-end technical teams, proven skills and expertise by utilizing waterflood programs and other established and repeatable practices. Daylight will reduce operating costs and extend the productive life of these large-scale assets. Daylight's experience with these and similar pools creates a low technical risk that the Trust believes can add production and reserves and increase net asset value at much lower costs than other programs. Daylight's Oil Exploitation properties include Freeman, Wildmere, and Sturgeon Lake (discussed on pp. 20 to 21). These are stable, low-risk producers with potential to add volumes through exploitation/optimization.

East Five ("E-5") is a non-traditional term describing the low-risk, generally shallow-depth oil and natural gas pools in Daylight's eastern region, which generally lies east of Alberta's West 5 Meridian. W-5 indicates the shift towards deeper, liquids-rich and sour natural gas and oil opportunities, incurring greater capital intensity and drilling risk. E-5 properties create a low-risk production base suitable to a royalty trust.

For 2005 Daylight has allocated $10.0 million in growth capital to E-5 properties. The Trust plans to drill 25 net wells and intends to add over 1,000 boe in daily production during the year. Current production for the area is approximately 5,070 boe per day.

Low-Risk Oil Exploitation
Sturgeon
Freeman
Wildmere

West Central Alberta

> Multi-zone natural gas development

The Trust's West Central Alberta assets are in the heart of a prolific, multi-zone natural gas-prone area. The area volumes are averaging 6,180 boe per day in April 2005. Daylight has ownership interests or contractual access to processing facilities for both sweet and sour gas. This creates another competitive advantage and a barrier to entry for competitors. Daylight's lower than average working interests in this region are not the Trust's favoured model, but are opportunities for growth and create strong reserves/production cost synergies potential through consolidation-type acquisitions.

Daylight is targeting a major turn-around from the previous operator's minimal investment and activity. Opportunities range from low-risk production optimization and uphole gas recompletions, through to development drilling of recent discoveries. Daylight has budgeted growth capital of $16.5 million for West Central Alberta in 2005, including participation in 40 wells (10 net), and intends to add over 1,500 boe per day in production during the year.

Pine Creek/Fir

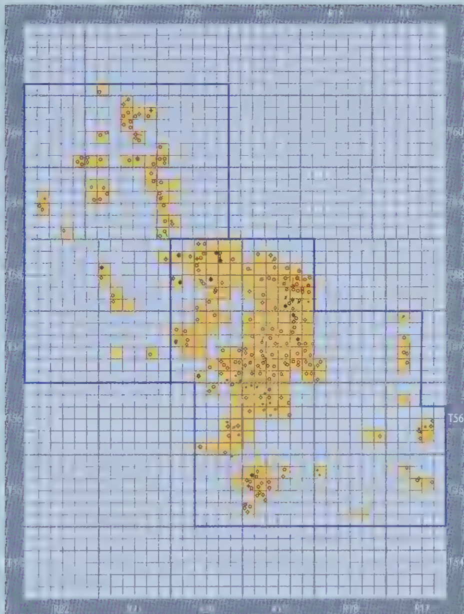
Pine Creek/Fir offers a wide array of low-risk development and exploitation targets. The main play is the area's wide-ranging Bluesky pools as well as the Nordegg formation. Successful Bluesky wells typically flow at 2 to 5 mmcf per day, and produce 2 to 5 bcf, with additional uphole potential. The Bluesky play has generated strong recent successes for Daylight and industry competitors. The undercapitalized and underdeveloped nature of Daylight's lands has created a built-in development backlog that Daylight intends to aggressively pursue with a multi-well, multi-year program.

Oldman

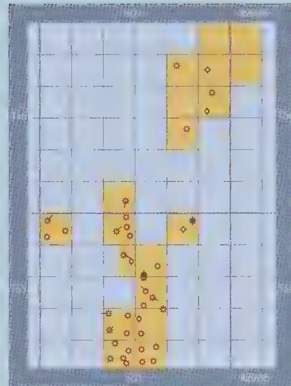
At Oldman the primary producing formation is the medium-depth Cardium sandstone. This "tight" or low-permeability reservoir creates technical challenges, but through the correct application of recent completion techniques the tight sands yield wells that flow productively for decades. This creates an excellent production profile for a royalty trust.

Daylight's extensive and under-drilled land base creates a development model of down-spacing wells to reach unexploited portions of known pools. The property also holds shallower and deeper natural gas potential. In addition, there is an emerging regional exploration play, which Daylight intends to pursue in conjunction with the new Midnight exploration company.

PINE CREEK/FIR



OLDMAN



Natural gas targets in West Central Alberta include the deep Nordegg Formation, the shallower Bluesky and Gething zones, and tighter, long-life Cardium sands. The target production is sweet and rich in natural gas liquids (NGL), with the deeper older Devonian production being sour. In this area the potential and rewards are well recognized by the industry. Daylight relies on its experience and expertise to capture these opportunities.

Legend

- WORKING-INTEREST LAND
- LOCATION
- OIL
- SUSPENDED OIL
- ABANDONED OIL
- STANDING
- WATER DISPOSAL
- GAS
- SUSPENDED GAS
- ABANDONED GAS
- D & A

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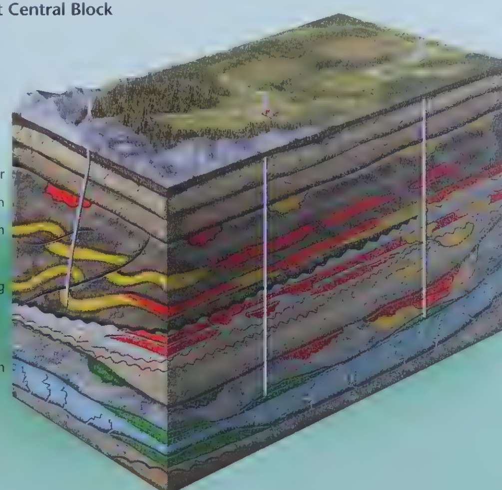
West Central Block



Pine Creek/Fir, Oldman

Undeveloped Land *(acres)*	Production *(April 05)* *(boe/d)*	Reserves *(P + P)* *(mmboe)*	2005 Drilling Locations
25,600	2,400	6.5	19

Peace River Arch/Deep Basin

> Deep, liquids-rich, long-life natural gas reserves

The Peace River Arch region is very prospective for additions of high-rate, long-life natural gas. Daylight's interests in this region offer a range from shallow to deep natural gas opportunities in the Belly River, Cadotte, Falher, Notikewan, Gething and Cadomin formations. Daylight has growth capital of $13.5 million budgeted for 2005. The Trust's drilling program of 20 gross (12 net) wells is targeting new volumes of 1,200 boe per day. April 2005 production is approximately 4,650 boe per day.

Deep Basin

The gas-charged Deep Basin contains prolific, multi-zone, long-life natural gas reserves. For an operator with a solid land base and control of key infrastructure, the Cretaceous era sections at depths of 800 to 3,000 metres create one of the best areas in western Canada to add natural gas production and reserves. Daylight's Deep Basin properties therefore represent a genuine growth opportunity.

Deep Basin targets are not amenable to identification through seismic. Exploration and development success depends on sophisticated geological work, including careful study employing rock cores and cuttings used to create detailed geological models of the depositional environments. This requirement creates a significant barrier to entry by others. This type of work has been a specialty of Daylight's senior technical people for more than a decade.

Elmworth

In 2003 and 2004, Midnight Oil & Gas Ltd. experienced 100 percent drilling success on 11 Cadomin wells at this Deep Basin play, bringing on major natural gas volumes and identifying further pools for development. Cadomin wells typically yield 1.5 bcf in long-life reserves and 2+ bcf in uphole targets. In 2005, Daylight has an inventory of 10 Cadomin locations at Elmworth with additional multi-zone potential, including an emerging regional shallow gas play.

Peace River Arch

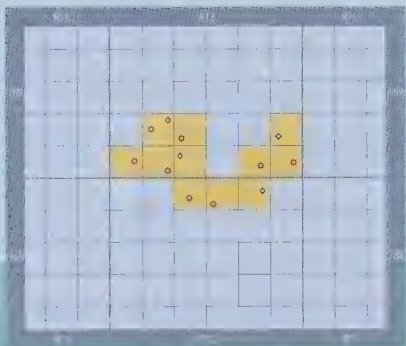
The multiple, shallow through deeper oil and natural gas bearing zones of the Peace River Arch form a very productive and highly competitive area. Daylight holds over 90,000 net acres of undeveloped lands, 13,000 km of 2-D seismic data and a combination of Trust-owned infrastructure and contractual access to processing capacity. Daylight's management has extensive operating experience in this region and sees a range of exploitation and development opportunities in proven, repeatable Triassic marine sand play concepts.

The Cretaceous Era Deep Basin is a water-free, natural gas-charged system that characteristically yields high-rate, long-life wells. The region also contains multi-zone potential from shallow through deep natural gas targets with year round access and access to infrastructure. Success requires significant technical expertise. The Trust's management team is familiar with the demanding geological and operating conditions, and has a proven track record of creating value.

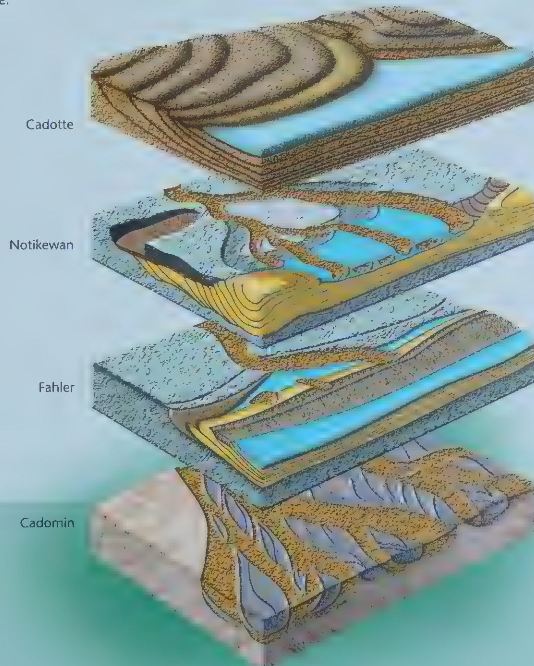
Legend

WORKING-INTEREST LAND · STANDING · GAS · D & A

ELMWORTH



Deep Basin – Elmworth



Elmworth

Undeveloped Land *(acres)*	Production *(April/05)* *(boe/d)*	Reserves *(P + P)* *(mmboe)*	2005 Drilling Locations
820	300	0.7	7

Peace River Arch/Northeast B.C.

> Unlocking value through farm-outs and joint venture drilling with Midnight Exploration

Located in the highly sought after, natural gas prospective lands of northeast British Columbia, Cypress and Milo came into the Daylight portfolio via the Vintage acquisition. In early 2005, the two properties generated 1,200 boe per day of Daylight's volumes. The Trust has a good production base, with access to both sweet and sour natural gas infrastructure, an extensive seismic database and 20,500 net acres of undeveloped lands.

Cypress – Low-risk exploitation

Cypress, currently producing 1.8 mmcf per day net, is a dual zone Halfway and Debolt structural play. Ownership of local pipeline infrastructure with sufficient takeaway capacity to enable growth in volumes creates competitive advantage. The previously under-managed production base creates opportunities for substantial exploitation activities.

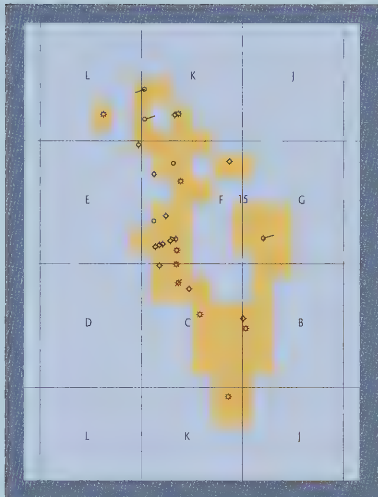
Milo – High-rate natural gas development

The principal target at this property (40 percent working interest) is a deeper Slave Point/Pine Point Devonian reef with an active water drive. Successful drilling yields high deliverability wells typically flowing at 4 to 5 mmcf per day. Daylight sees scope to methodically explore and develop its interests at Milo, drilling carefully selected prospects at a rate of 1 to 2 gross wells per winter season.

Midnight and Others – Grassroots exploration

Daylight will participate via farm-out with the new Midnight exploration company and other third parties in selected high-impact, grassroots exploration opportunities. This program generates value without risking Unitholders' capital. Under a joint venture farm-out agreement covering Daylight's undeveloped lands and infrastructure, Midnight and other third parties will provide drilling capital and assume exploration risk for the Trust's account. Daylight's farm-out program will be targeted to minimize land expiries and aid development and exploration in areas selected for farm-out. Daylight will retain a working interest or share of the revenues from production or reserves discovered on the Trust's lands.

CYPRESS



Daylight's Northeast B.C. properties offer significant upside opportunities through exploitation and development activities and participation in high-impact exploration with the new Midnight exploration company. Daylight's management is experienced in the area's predominantly faulted and structured Cretaceous and Triassic geology, which holds multiple productive zones.

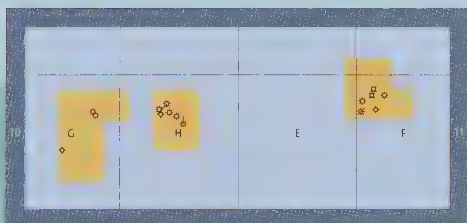
Legend

- WORKING-INTEREST LAND
- LOCATION
- STANDING
- WATER DISPOSAL
- GAS
- SUSPENDED GAS
- D & A

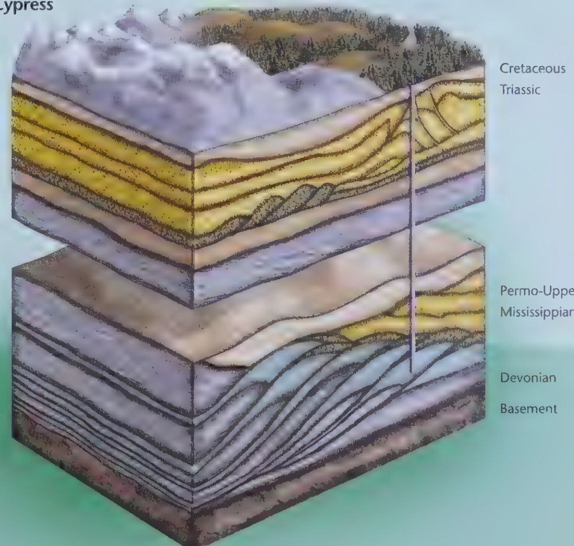
Cypress, Milo

Undeveloped Land *(acres)*	Production *(April/05)* *(boe/d)*	Reserves *(P + P)* *(mmboe)*	2005 Drilling Locations
20,500	1,200	2.3	1

MILO



Northeastern B.C.
Cypress



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Low-Risk Oil Exploitation – Sturgeon

Two Leduc 'D3' pools at Sturgeon Lake had original-oil-in-place ("OOIP") estimated at 415 million barrels, placing them among western Canada's largest light oil pool discoveries. Sturgeon Lake was discovered in 1952 and has produced an estimated 198 mmstb to date. Current oil production from the Daylight portion of the pool is 1,200 bbls per day. The pools have also produced large volumes of natural gas, with more than 350 bcf original-gas-in-place ("OGIP").

Sturgeon Lake has a natural aquifer and therefore does not require additional water injection for pressure maintenance. Daylight is currently conducting a multi-disciplinary study integrating geology, geophysics and engineering to identify the optimal exploitation of this pool. The potential for a multi-well downspacing program has already been identified. Sturgeon Lake's current recovery factor stands at approximately 48 percent. Daylight expects to increase this by up to 4 percentage points. Each percentage point will add proved reserves of approximately 4 million barrels at very low-risk.

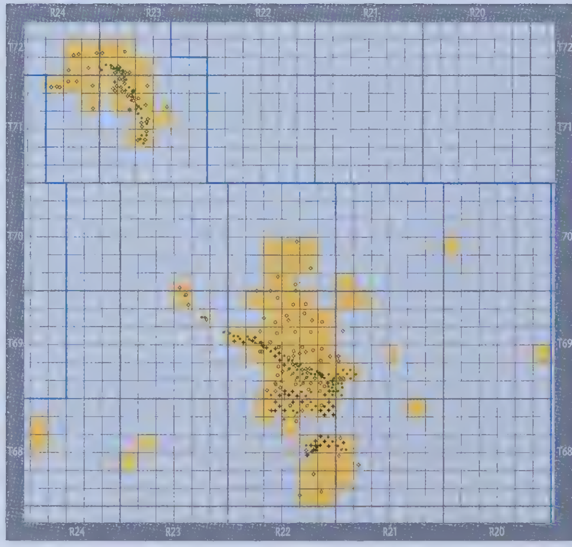
The previous operator's neglected pool maintenance and development resulted in declining production and operating costs increasing to over $15 per bbl of production. Daylight has already reduced these costs and intends to further reduce operating costs through systematic application of proven optimization/exploitation techniques, including:

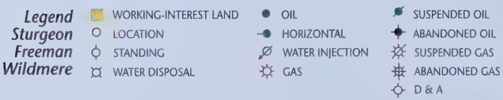
- Field-wide reservoir simulation study
- Reactivate idled pumps
- Consolidate oil batteries
- Install high-volume, electrical submersible pumps
- Optimize electric power consumption
- Bottom-hole water-separation, reducing lifting and water reinjection costs
- Horizontal re-entry and infill drilling
- Badheart Formation natural gas development

Daylight sees potential to reduce unit operating costs and make significant new volumes of OOIP economically producible. Longer-term development could increase the pool's known OOIP by extending pool boundaries.

Daylight sees multi-year opportunities to lengthen field life, adding significant crude oil reserves and production, and to extend pool boundaries and pursue uphole natural gas development.

STURGEON



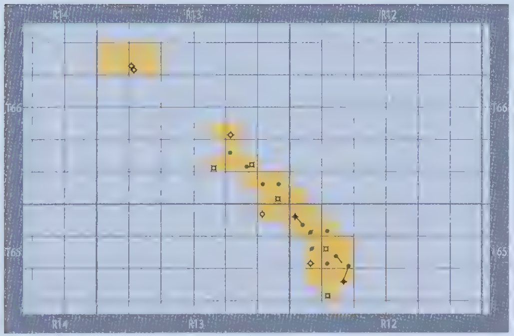


> Freeman

Freeman is a smaller pool than Sturgeon Lake, with OOIP estimated at 40 million barrels and production in early 2005 of approximately 50 bbls per day. Daylight sees significant potential for increased reserves and production through the application of its multi-disciplinary reservoir study and analysis, leading towards a waterflood program in 2006. Daylight sees potential to increase the Beaverhill pool's recovery factor by 10 percent, adding 4 million barrels in reserves and extending Freeman's economic life.

Freeman is another exploitation project with little risk and tremendous upside. Beginning with a field-wide reservoir simulation to optimize well placement, injection rates and other key parameters, Daylight plans to redesign and reactivate a portion of an earlier waterflood abandoned under previous ownership. Waterflood reactivation is a medium-term project that will show initial response beyond one year out, as reservoir pressure recovers and additional oil migrates to producing wells.

FREEMAN



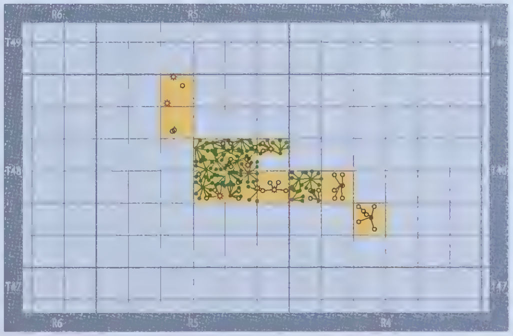
> Wildmere

A corporate acquisition in April 2005 included 2,100 bbls per day of conventional heavy oil production at Wildmere. Wildmere (100 percent working interest) produces 12° API oil from 103 producing wells on a 6.5 section portion of the wider Lloydminster 'P' pool (650 metres depth).

The previous operator's innovative development approach reduced the typically high operating costs of heavy oil production to only $8 per bbl. The 6.5 sections of pool area were covered through multiple-well pads, typically with one vertical plus four horizontal producing wells, a centralized oil battery and self-generated electricity, utilizing locally produced Colony gas, for artificial lift, water handling and oil shipment. Wildmere was developed on 40 acre spacing, with proved plus probable reserves of 12.7 million bbls.

Wildmere requires little capital to continue producing. An additional 2.5 sections of land remain undeveloped, creating opportunity for 48 locations and an additional 3 million bbls in low-cost reserve additions. Wildmere could be further exploited through infill drilling to 20 acre spacing, substantially boosting volumes and increasing recovery of the estimated 139 million bbls of OOIP. This program would be timed to a favourable phase in the heavy oil price cycle.

WILDMERE



Corporate Governance

General

In general, the board of directors of Daylight Energy Ltd. ("Daylight Energy") has been delegated substantially all of the Trust's management decisions. The board in turn delegates routine operational and management decisions to Daylight Energy's management team. It is the board's responsibility to ensure that Daylight's operating activities and financial reporting and disclosure comply with applicable securities legislation, applicable bylaws and regulations of the stock exchanges on which it trades, and accounting standards as practised in Canada. Unitholders are entitled to elect all of the board of directors of Daylight Energy pursuant to the terms of the Trust Indenture.

The articles of incorporation of Daylight Energy provide that the board of directors of Daylight Energy shall consist of a minimum of three and a maximum of ten directors. As of April 2005 Daylight has a five-member board of directors, consisting of two inside directors, including the executive chairman, and three outside (independent) directors, all five of whom were put forward in the November 2004 Plan of Arrangement, and were approved by a vote of securityholders of Midnight Oil & Gas Ltd. These same five individuals are expected to stand for re-election at the Trust's first annual meeting, to be held on May 26, 2005.

Following approval of the Plan of Arrangement, the board of directors elected members to serve on five committees: audit, reserves, compensation, technical services and corporate governance, and environmental. Each of these committees consists exclusively of outside directors.

Additional information in respect of corporate governance matters will be contained in the Trust's 2005 information circular, which will be filed on SEDAR at www.sedar.com.

Trust Indenture

Pursuant to the Trust Indenture, Unitholders are entitled to direct the manner in which the Trust will vote its common shares in Daylight Energy at all meetings in respect of matters, relating to the election of the directors of Daylight Energy, approving Daylight Energy's financial statements and appointing auditors of Daylight Energy who shall be the same as the Trust's auditors. Prior to the Trust voting its common shares in Daylight Energy, in respect of such matters, each Unitholder is entitled to vote in respect of the matter on the basis of one vote per Trust Unit held, and the Trust is required to vote its common shares in Daylight Energy in accordance with the result of the vote of Unitholders.

Decision Making

The Trust has entered into an administration agreement with Daylight Energy pursuant to which the board of directors of Daylight Energy has generally been delegated the Trust's significant management decisions. This includes operational and management decision-making with respect to the oil and natural gas-producing assets held by Daylight Energy that produce substantially all of the cash flow available for distribution, via the Trust, to Unitholders; financial decision-making; hiring and firing of key personnel; administrative decision-making; and all other decision-making that arises in the normal course of doing business.

In particular, the Trustee has delegated to the board of directors of Daylight Energy responsibility for any and all matters relating to the following: (i) an offering; (ii) ensuring compliance with all applicable laws, including in relation to an offering; (iii) all matters relating to the content of any offering documents, the accuracy of the disclosure contained therein, and the certification thereof; (iv) all matters concerning the terms of, and amendment from time to time of material contracts; (v) all matters concerning any underwriting or agency agreement providing for the sale of Trust Units or rights to Trust Units; (vi) all matters relating to the redemption of Trust Units; (vii) all matters relating to the voting rights on any investments in the assets of the trust or any subsequent investments; (viii) all matters relating to the specific powers and authorities as set forth in the Trust Indenture.

The Trust Indenture gives to the board of directors of Daylight Energy the authority to exercise the rights, powers and privileges for all matters relating to the maximization of Unitholder value in the context of an offer including any Unitholder rights protection plan, any defensive action to an offer, any directors' circular in response to an offer, any regulatory or court proceeding relating to an offer and any related or ancillary matter.

Distributions

Cash distributions are made on the 15th day (or if such date is not a business day, on the next business day) following the end of each calendar month to Unitholders of record on the last business day of each such calendar month or such other date as determined from time to time by the Trustee. Distributions are normally announced on a monthly basis in the context of prevailing and anticipated commodity prices.

> Board of Directors

Fred Woods, ***Executive Chairman***

Mr. Woods has been Executive Chairman of Daylight Energy since December 2004; prior thereto, he was President, Chief Executive Officer and a Director of Midnight Oil & Gas Ltd. or its predecessor since July 2000. From March 1997 to May 2000, Mr. Woods was President and Chief Operating Officer of Ulster Petroleums Ltd. (an intermediate oil and gas company).

Anthony Lambert, ***President, Chief Executive Officer and Director***

Mr. Lambert has been the President and Chief Executive Officer of Daylight Energy since December 2004; prior thereto, Mr. Lambert was Vice President, Operations, Chief Operating Officer and a Director of Midnight Oil & Gas Ltd. or its predecessor since July 2000. From August 1995 to May 2000, Mr. Lambert was the Vice President, Operations of Ulster Petroleums Ltd.

Peter Harrison, ***Director***

Mr. Harrison is Senior Vice President, Canadian Equities for Montrusco Bolton, responsible for the Canadian equity portfolios and a member of Montrusco Bolton's Asset Mix Committee. Mr. Harrison has worked in the investment industry for 25 years. Prior to joining Montrusco Bolton in December 1997, he was with CN as a portfolio manager, venture capital specialist, manager of direct oil and gas investments and head of Canadian equities. He has also worked for Alcan as a portfolio manager and at Montreal Trust in equity and bond trading.

Rick Orman, ***Director***

Mr. Orman currently serves as Vice Chairman and director of Novatel Inc. and as Executive Vice Chairman of Exceed Energy Inc. (a TSX Venture-listed oil and gas company), a company he co-founded in 2003. Mr. Orman has been in the energy industry for over 30 years, holding positions in both the public and private sectors. From 1986 to 1992 Mr. Orman served as a member of the Alberta Legislature and held the position of Minister of Energy from 1989 to 1992. From 1994 to 1999, Mr. Orman was founder, Chairman and CEO of Kappa Energy (a public oil and gas company).

Jeffery Tonken, ***Director***

Mr. Tonken is currently the President of Birchcliff Energy Ltd. Prior thereto, Mr. Tonken was the President and Chief Executive Officer of Case Resources Inc., which was acquired by Fairborne Energy Ltd. in July 2004. Prior to Case Resources, Mr Tonken was President and Chief Executive Officer of Big Bear Exploration Ltd., which was acquired by Avid Oil & Gas in January 2000. Prior thereto, Mr Tonken founded Stampeder Exploration Ltd. in 1987, which traded on the New York, Toronto, Alberta and Montreal Stock Exchanges. Stampeder was acquired by Gulf Canada Resources in 1997 for an aggregate price in excess of $1.3 billion. Mr Tonken was a partner at Borden Ladner Gervais, practising commercial and corporate law for 12 years. Mr Tonken is a past director of the Canadian Association of Petroleum Producers (CAPP).

Team Daylight 2004

Bottom Row (Left to right): Joy Groves, Cheryl Humble, Marilyn Miller, Laura Kiez, Jo Ellen Atkins, Fred Woods, Anthony Lambert, Marianne Hammelburg, Joan Broadley, Rouzana Barron, Gwen Bourgette, Jerry Simpson, Chris Desmarais, Scott Wilhelm.

Second Row from Bottom (Left to right): Sandra Nahas, Jan Rintoul, Chelsey Butler, Balpreet Khaihra, Ardyth Wagner, Lucy Troup, Shaku Mawani, Robert Aiello, Judy Stripling, Barry Bryson, Veronica Woo, Cathy Zhai, Glenn Murdoch, Bob Marsh.

Third Row from Bottom (Left to right): Catherine Zeh, Mike Fawcett, Dale Mennis, Terri Larson, Liz Othen, Ivy Leinweber, Irene Jubinville, Rasheeda Khan, Lori Lile, Stefanie Kozak, Jenn Knight, Jennifer Cromwell.

Fourth Row from Bottom (Left to right): Martin Saizew, Bev Michaelis, Bob Gibb, Andy Welden, Kathy Bourque, Trevor Tjostheim, Gary Strashok, Brian Carrigy, Richard Ballak, Dave [illegible]ala, Steve Nielsen, Volker Braun, Peter O' Leary, Keith Gingerick, Charles Elliott

Fifth Row from Bottom (Left to right): Glen Scott, Jack Tarnowsky, Colleen Morris, Tom Moslow, Bonnie O'Shea, Steve Horner, Paul Konoza, Stacey Hunchak, Dave West, Richard Rowland.

Top Row (Left to right): Scott Daniel, Russ Anderson, Brad Wenzel, Brent Eshleman, Suzanne Ross, Sumir Saini, Dean Bloodworth.

Corporate Information

Board of Directors

Fred Woods
Executive Chairman,
Daylight Energy
Calgary, Alberta

Anthony Lambert
President and
Chief Executive Officer,
Daylight Energy
Calgary, Alberta

Peter Harrison (1) (2) (3) (4) (5)
Senior Vice President,
Canadian Equities,
Montrusco Bolton
Brossard, Quebec

Rick Orman (1) (2) (3) (4) (5)
Executive Vice Chairman,
Exceed Energy Inc.
Calgary, Alberta

Jeff Tonken (1) (2) (3) (4) (5)
President,
Birchcliff Energy Ltd.
Calgary, Alberta

Member of the following committees:
(1) Audit
(2) Reserves
(3) Compensation
(4) Technical Services and Corporate Governance
(5) Environmental

Officers

Anthony Lambert
President and
Chief Executive Officer

Brent Eshleman
Vice President,
Engineering and Exploitation

Steve Horner
Vice President,
Business Services

Dale Mennis
Vice President,
Business Development

Steve Nielsen
Vice President and
Chief Financial Officer

Richard Rowland
Vice President, Development

Jack Tarnowsky
Vice President, Operations

Chris von Vegesack
Corporate Secretary,
Burnet, Duckworth & Palmer LLP

Bankers

The Bank of Nova Scotia
Canadian Imperial Bank of Commerce
The Royal Bank of Canada

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Chartered Accountants
Calgary, Alberta

Evaluation Engineers

Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbols:
DAY.UN and DAY.DB

Investor Relations

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www.daylightenergy.ca
1.877.266.6901

Abbreviations

/d	per day
bbl(s)	barrel(s)
mbbls	thousand barrels
mmbbls	million barrels
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
boe	barrels of oil equivalent
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
mmstb	million stock tank barrels of oil
ARTC	Alberta Royalty Tax Credit
Cdn	Canadian
NGLs	natural gas liquids
WTI	West Texas Intermediate crude oil
US	United States

Boe means barrel of oil equivalent, using the conversion factor of 6 mcf of natural gas being equivalent to one barrel of oil. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Head Office

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DAYLIGHT ENERGY TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion & Analysis ("MD&A") is dated March 24, 2005 and should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the period ended December 31, 2004. The Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A should also be read in conjunction with the Annual Information Form which includes complete NI 51-101 reserve disclosure and is available at www.sedar.com. Daylight Energy Trust ("Daylight" or the "Trust") is an open-ended investment trust created on October 1, 2004 under the laws of the Province of Alberta. Daylight completed a private placement on October 21, 2004 and commenced oil and gas operations through its subsidiary, Daylight Energy Ltd. ("Daylight Energy"), on November 30, 2004 as part of a Plan of Arrangement (the "Plan of Arrangement"). The Plan of Arrangement involved Daylight Energy acquiring Midnight Oil and Gas Ltd. ("MOG") as well as Vintage Petroleum Canada, Inc. ("VPCI") and conveying certain assets to Midnight Oil Exploration Ltd. ("MOX"). The MOG and VPCI acquisitions have been accounted for by the purchase method using fair values, the conveyance to MOX has been accounted for by the continuity of interest method. The 2004 financial results reflect the activities of Daylight from October 21, 2004 to December 31, 2004.

Daylight uses the term cash flow from operations (defined as cash flow from operating activities prior to changes in non-cash working capital) to analyze operating performance and leverage. Cash flow from operations as used in the MD&A does not have any standardized prescribed meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities. Cash flow from operations does not represent operating profit for the period nor should it be viewed as an alternative to operating profit, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. The reconciliation of net income to cash flow can be found in the consolidated statement of cash flows within the period end financial statements. Daylight also uses the term operating netback (defined as petroleum and natural gas revenues less royalties, operating and transportation expenses) to analyze operating performance. Operating netback as used in the MD&A does not have any standardized meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities.

All references are to Canadian dollars unless otherwise indicated. Where reserves or production are stated on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to a barrel of oil equivalent (boe) at a ratio of 6,000 cubic feet of natural gas to one barrel of oil. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe's may be misleading, particularly if used in isolation.

Forward Looking Statements - Certain information regarding Daylight set forth in this document, including management's assessment of future plans and operations, contains forward looking statements that involve substantial known and unknown risks and uncertainties. By their very nature, these forward looking statements are subject to numerous risks and uncertainties, certain of which are beyond Daylight's control. Actual results could differ materially from those currently anticipated due to any number of factors including such variables as new information regarding recoverable reserves, volatility of commodity prices, and competition from other entities,

environmental, legislative, regulatory and political changes along with other factors discussed in our annual information form. Accordingly, no assurance can be given that any events anticipated by the forward looking statements will transpire or occur, or if any of them do, what the impact to Daylight will be.

CREATION OF DAYLIGHT AND PLAN OF ARRANGEMENT

The following series of significant events during 2004 lead to the creation of Daylight as it exists at December 31, 2004:

- On September 22, 2004 MOG entered into an acquisition agreement to purchase VPCI for a base purchase price of $322.5 million plus working capital and other adjustments. The effective date for the determination of working capital and other adjustments was June 30, 2004.
- On October 1, 2004, Daylight was created under the laws of the Province of Alberta.
- On October 21, 2004 Daylight raised aggregate gross proceeds of $255 million by way of private placement of 18,229,167 Series U Subscription Receipts at a price of $9.60 per Receipt (convertible to one trust unit and 0.5 post consolidation shares of MOX) for gross proceeds of $175 million, and 80,000 Series D Subscription Receipts at a price of $1,000 per Receipt (convertible to a $1,000 - 8.5% Convertible Debenture) for gross proceeds of $80 million.
- On November 29, 2004 Daylight Energy executed a credit agreement providing a $145 million facility from a syndicated bank group which was utilized to finance the acquisition of VPCI and for general corporate purposes.
- On November 30, 2004 the Plan of Arrangement became effective and resulted in:
    - The acquisition of MOG and VPCI as well as the reorganization of Daylight into a new oil and natural gas energy trust which owns the combined reserves, undeveloped land and other assets of VPCI and MOG which are predominantly mature, lower-risk oil and natural gas producing assets.
    - The creation of MOX, an exploration focused producer, which owns certain of the former MOG and VPCI assets including reserves and undeveloped land which are predominantly higher growth natural gas assets with significant exploration and development upside.
    - Shareholders of MOG received either one trust unit of Daylight or one exchangeable share of Daylight Energy for each share owned in addition to 0.5 post consolidation shares of MOX.
    - Series U Subscription Receipt holders received one trust unit of Daylight for each Series U Subscription Receipt held in addition to 0.5 post consolidation shares of MOX.
    - Holders of Series D Subscription Receipts received 8.5% Convertible Debentures of the Trust for each Series D Subscription Receipt held.

HIGHLIGHTS

Financial *(in thousands of dollars, except unit, per unit and boe data)*	Period from October 21 to December 31, 2004	Per boe
Petroleum and natural gas revenues	$ 17,377	$ 42.37
Royalties	(3,662)	(8.93)
Operating expenses	(4,335)	(10.57)
Transportation	(153)	(0.37)
Operating netback	9,227	$ 22.50
Interest income	726	1.77
General and administrative	(987)	(2.41)
Cash financial charges	(1,677)	(4.09)
Cash taxes	(92)	(0.22)
Asset retirement expenditures	(223)	(0.54)
Cash flow from operations	6,974	$ 17.01
Per unit – Basic	0.24	
– Diluted	0.22	
Net income	1,087	
Per unit – Basic	0.04	
– Diluted	0.04	
Cash distributions	9,777	
Per unit	0.24	
Capital expenditure (excluding corporate acquisitions)	5,057	
Corporate acquisitions	311,433	
Bank debt	89,220	
Working capital deficiency	20,820	
Total assets	615,486	
Units outstanding (000s)		
Basic including exchangeable shares	43,385	
Diluted	51,806	

Operations	
Average daily production	
Natural gas (mcf/d)	58,264
Crude oil (bbls/d)	2,671
Natural Gas Liquids ("NGLs") (bbls/d)	846
Crude oil & NGLs (bbls/d)	3,517
Combined (boe/d)	13,228
Average prices received	
Natural gas (mcf)	$ 6.89
Crude oil (bbls)	44.29
NGLs (bbls)	45.34
Crude oil & NGLs (bbls)	44.54
Combined all products (boe)	$ 42.17

The 2004 financial results reflect the activities of Daylight from October 21, 2004 to December 31, 2004. Active oil and gas operations commenced subsequent to the Plan of Arrangement on November 30, 2004.

RESULTS OF OPERATIONS

Daylight is an oil and natural gas energy trust applying a high end technical and business execution team to a high quality asset base to provide sustainable production and reserve levels. Daylight operates primarily on the Peace River Arch and West Central Alberta. Daylight's units and the 8.5% Convertible Debentures trade on the Toronto Stock Exchange ("TSX") with the symbols DAY.UN and DAY.DB respectively.

On February 9, 2005 Daylight and Flowing Energy Corporation ("Flowing") announced they had entered into an agreement whereby Daylight will acquire all of the issued and outstanding shares of Flowing on the basis of one trust unit of Daylight for every 13.45 Flowing common shares. Pursuant to the agreement, Flowing Shareholders will be entitled to receive up to a maximum aggregate of 480,000 exchangeable shares of Daylight Energy divided by the exchange ratio applicable to exchangeable shares at closing instead of trust units. As of March 24, 2005, Flowing had 42.7 million shares outstanding, which implies the issuance of 3.2 million trust units less the amount of exchangeable shares which Flowing shareholders elect to receive. A meeting of Flowing securityholders will be held on April 4, 2005 to approve the transaction.

Production

Daylight's production volumes for the month of December, 2004 (oil and gas operations commenced November 30, 2004) averaged 13,228 boe/d comprised of 58,264 mcf/d of natural gas, 2,671 bbls/d of oil and 846 bbls/d of NGLs.

During the month of December, 2004 the Wapiti 11-18 gas well, which contributes approximately 800 boe/d to Daylight, was suspended for the entire month due to a pipeline rupture. The rupture was repaired and the well was brought on stream during the month of January, 2005. This disruption negatively impacted Daylight's production during the month.

Daily production	
Natural gas (mcf/day)	58,264
Crude oil (bbls/day)	2,671
NGLs (bbls/day)	846
Combined Crude oil and NGLs (bbls/day)	3,517
Combined all products (boe/day)	13,228

2005 activities will be focused on:

- West Central properties of Pine Creek, Kaybob, Fir, Marlboro, and Windfall
- Peace River Arch properties of Elmworth, Hines Creek, Cecil, Wapiti and Sinclair
- Eastern properties of Bonnyville and Little Bow

Daylight expects production of approximately 13,800 boe/d during Q1, 2005, increasing by 2,100 boe/d with the closing of the Flowing acquisition early in Q2, 2005.

Commodity Prices

Daylight's natural gas prices are influenced by overall North American supply and demand balance, seasonal changes, storage levels and transportation capacity constraints. Daylight's realized natural gas price has a high correlation to the Alberta benchmark price ("AECO").

Daylight's crude oil price is significantly influenced by global supply and demand conditions. Daylight's realized crude oil price has a high correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price and the Canadian to US dollar exchange rate. Canadian oil prices correlate to refinery postings that adjust WTI for the Canadian to US dollar exchange rate as well as transportation costs and quality adjustments. During 2004 and continuing into 2005 the WTI price has been very strong which has enhanced the price realized

by Daylight with the strengthening of the Canadian dollar relative to the US dollar having a moderating effect on realized oil prices.

Natural Gas Liquids ("NGLs") include Condensate, Pentane, Butane and Propane. Prices for NGLs have their own market dynamic with a relatively strong correlation to oil prices for Condensate and Pentane while Butane and Propane trade at moderate discounts.

Market prices	December, 2004
AECO ($Cdn/mcf)	6.73
WTI ($US/bbl)	43.23
Edmonton Par ($Cdn/bbl)	51.31
Exchange rate ($Cdn/$US)	0.8213

Daylight prices realized:	December, 2004
Natural gas ($/mcf)	6.89
Crude oil ($/bbl)	44.29
NGLs ($/bbl)	45.34
Combined Crude oil and NGLs ($/bbl)	44.54
Combined all products ($/boe)	42.17

Daylight's natural gas price during December, 2004 was $6.89/mcf representing a 2% premium to AECO in the month.

Daylight's combined crude oil and NGLs price during December, 2004 was $44.54/bbl. Daylight's oil price during December, 2004 was $44.29/bbl and NGLs price during December, 2004 was $45.34/bbl.

Daylight's realized prices are expected to continue to correlate with market prices during 2005 subject to any hedging transactions that Daylight enters into during 2005. Daylight continues to monitor commodity prices and may selectively hedge a portion of its production. The current 12 month forward strip for AECO natural gas is approximately $8.00/mcf and for WTI crude oil is approximately US$55.00/bbl. These forward prices are well in excess of Daylight's budgeted prices of $6.60/mcf for natural gas and WTI-US$48.00/bbl for crude oil which allows us increased flexibility in executing our capital and operating plans.

Revenue

Petroleum and natural gas (000s)	December, 2004
Natural gas	$ 12,437
Crude oil	3,668
NGLs	1,189
Other	83
Total	$ 17,377

Natural gas sales for the month of December, 2004 were $12.4 million.

For the month of December, 2004 oil sales were $3.7 million and NGLs sales were $1.2 million for combined oil and NGLs sales of $4.9 million.

Royalties

Daylight's production results in royalties due to the owners of the mineral rights on our leases which includes provincial governments (Crown) and freehold landowners as well as contractual overriding royalties to others.

In Alberta, royalties on natural gas and NGLs are charged by the government based on an established monthly Reference Price. The Reference Price is meant to reflect the average price for gas in the province. For December 2004, the Reference Price averaged $6.70/GJ or approximately $7.06/mcf. Gas cost allowance, custom processing credits, and other incentive programs reduce the effective royalty rate. Approximately 85% of Daylight's natural gas production is from Alberta.

Oil royalty rates are generally a function of production rates on a per well basis, prices and are also subject to certain reductions and incentives. Crown royalties in Alberta are generally satisfied by delivering the required amount of oil to the Crown.

Royalties by type (000s)	December, 2004
Crown royalties, net of ARTC	$ 3,276
Freehold royalties	51
Overriding royalties	335
Total	$ 3,662
$ per boe	$ 8.93
% of revenue	21.1

Royalties by commodity	(000s)	$/boe	% of revenue
Natural gas	$ 2,644	$ 8.78	21.3
Crude oil and NGLs	1,018	9.34	21.0
Total	$ 3,662	$ 8.93	21.1

Daylight expects royalty rates to remain at approximately 21% during 2005.

Interest Income

On October 21, 2004 Daylight raised $255 million by way of the private placement of Series U Subscription Receipts and Series D Subscription Receipts. These proceeds generated $726,000 of interest income prior to the closing of the Plan of Arrangement on November 30, 2004 when the proceeds were fully utilized.

Daylight does not expect to earn interest income during 2005.

Operating Expenses

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production.

(000s)	December, 2004
Operating costs	$ 4,335
$ per boe	$ 10.57

Daylight has identified several operating costs savings which are being implemented during 2005 and are expected to reduce costs per boe during the year.

Transportation Expenses

Transportation expenses are defined by the point of legal custody transfer of the commodity and are influenced by the nature of the production, location, availability of transportation and the sales point.

Daylight sells its oil production at the lease with the purchaser taking legal custody of the oil and paying a price for the oil at that delivery point. Natural gas is usually transported to an established delivery point such as AECO in Alberta and then delivered to the purchaser.

The cost of delivering production to the custody transfer point is shown separately as transportation expense.

(000s)	December, 2004
Transportation costs	$ 153
$ per boe	$ 0.37

During 2005 Daylight expects transportation expense, on a boe basis, to remain near the 2004 level.

Operating Netbacks

Oil, NGLs & Natural Gas Combined (per boe)	December, 2004
Revenue	$ 42.37
Royalty	(8.93)
Operating cost	(10.57)
Transportation	(0.37)
Operating netback	$ 22.50

General and Administrative Expenses

General and administrative expense ("G&A") during 2004 for Daylight was $987,000 ($2.41/boe). G&A is higher than normal expectations due to the fact that certain annual costs, including the audit and reserve reports were incurred, for only one month of related oil and natural gas operations. The impact of these annual costs on the 2004 results is approximately $440,000 ($1.07/boe).

	(000s)	$/boe
Gross G&A	$ 1,437	$ 3.50
Operating recoveries	(246)	(0.60)
Capitalized costs	(204)	(0.49)
Net G&A	$ 987	$ 2.41

During 2005 Daylight expects its net G&A per boe will decrease as the effect of annual costs are recognized over an entire year of operations as opposed to the one month of oil and gas operations which occurred during 2004.

In conjunction with the Plan of Arrangement, Daylight Energy and MOX entered into an Administrative and Technical Services Agreement which provides for the shared services required to manage MOX's activities and govern the allocation of general and administrative expenses between the entities. Under this agreement, Daylight receives payment for certain technical and administrative services provided to MOX on a cost recovery basis. Pursuant to the Administrative and Technical Services Agreement, Daylight Energy charged MOX $110,000 relating to general and administrative activities and $99,000 relating to capital expenditures for the period ending December 31, 2004. The Administrative and Technical Services Agreement has no set termination date and will continue until terminated by either party with three months written notice to the other party. In the interest of strong governance practices, Daylight has established a Technical Services and Corporate Governance committee of the Board of Directors to monitor the compliance with the Administrative and Technical Services Agreement.

Financial Charges

Daylight incurs cash interest expense on bank debt and convertible debentures. Daylight's effective bank debt interest rate was 4.5% and the convertible debentures have a fixed 8.5% interest rate. Non-cash financial charges relate to the amortization of cost related to issuing the convertible debentures, establishing the bank credit facility and accreting the convertible debenture discount.

	(000s)	$/boe
Bank debt interest	$ 337	$ 0.82
Convertible debenture interest	1,340	3.27
Cash financial charges	1,677	4.09
Amortization of financial charges	62	0.15
Accretion of convertible debenture discount	38	0.09
Total	$ 1,777	$ 4.33

During 2005, Daylight's bank debt interest is expected to continue to correlate with market interest rates and the convertible debentures interest rate is established at 8.5%.

Depletion, Depreciation and Accretion

Daylight's depletion, depreciation and accretion values relate to the Plan of Arrangement acquisition value of MOG and VPCI which were recorded at fair value.

	(000s)	$/boe
Depletion and Depreciation	$ 7,008	$ 17.09
Accretion	111	0.27
Total	$ 7,119	$ 17.36

During 2005 as Daylight implements its capital expenditure program and subsequent to the planned acquisition of Flowing in early April 2005, the depletion, depreciation and accretion rate per boe is expected to decrease.

Future Income and Capital Taxes

During the period Daylight recognized cash taxes of $92,000 ($0.22/boe) related to capital tax obligations. Daylight also recognized a future income tax reduction of $1,109,000 during 2004. Daylight is a taxable entity under the Canadian Income Tax Act and is taxable only on income that is not distributed or distributable to its unitholders.

Daylight does not expect to incur any cash income taxes in the future and expects to recover the recorded future tax liability recorded on the balance sheet over time as income is generated and distributions are paid to unitholders.

Net Earnings and Cash Flow

As a result of the previously discussed factors Daylight recognized net earnings of $1,087,000 and cash flow from operations of $6,974,000 during 2004.

(000s)	Net Earnings	Cash Flow from Operations
Recognized for 2004	$ 1,087	$ 6,974
Per boe	$ 2.65	$ 17.01
Per unit		
Basic	$ 0.04	$ 0.24
Diluted	$ 0.04	$ 0.22

Daylight's cash flow from operations is significantly influenced by production volumes and commodity prices. Daylight's estimated sensitivity to changes in these material assumptions during 2005 is approximately:

- $1.9 million per $0.10 change in natural gas price per mcf.
- $1.5 million per $US1.00 change in the WTI oil price per bbl.
- $1.4 million per 1 mmcf per day change in production.
- $0.9 million per 100 bbl per day change in oil and NGLs production.
- $0.6 million per 100 bbl per day change in heavy oil production related to the Flowing acquisition.

Corporate Acquisitions and Capital Expenditures

Daylight completed two major corporate acquisitions by way of Plan of Arrangement on November 30, 2004. The acquisition of MOG had a fair value of $241 million and the acquisition of VPCI had a fair value of $351 million as discussed in note 2 of the Consolidated Financial Statements. In addition to these acquisitions, Daylight commenced its initial capital expenditure program on the acquired properties by investing $5 million during December 2004 as detailed below:

Capital Expenditures (000s)	December, 2004
Land and acquisitions	$ 177
Geological and geophysical	206
Drilling and completions	3,486
Equipping and facilities	1,188
Total	$ 5,057

The 2005 capital expenditure program of $45 million will be focused on:

- West Central properties of Pine Creek, Kaybob, Fir, Marlboro, and Windfall. Daylight plans to drill 40 gross (10 net) wells on these properties as well as various production and reserve enhancement activities. Approximately 40% of the capital expenditure program is planned for this area.
- Peace River Arch properties of Elmworth, Hines Creek, Cecil, Wapiti and Sinclair. Daylight plans to drill 20 gross (12 net) wells on these properties as well as various production and reserve enhancement activities. Approximately 35% of the capital expenditure program is planned for this area.
- Eastern and Minor properties of Bonnyville and Little Bow. Daylight plans to drill 30 gross (25 net) wells on these properties as well as various production and reserve enhancement activities. Approximately 25% of the capital expenditure program is planned for this area.

Daylight has also identified a number of opportunities to purchase equipment that is currently under lease. These transactions will have a significant positive impact on operating costs and economics at the affected properties. Daylight is also pursuing the disposition of approximately $10 million of non-core non-producing assets during 2005.

Goodwill

Daylight recorded goodwill of $165 million related to the acquisition of MOG and $16 million related to the acquisition of VPCI for total goodwill of $181 million at December 31, 2004. In accordance with GAAP, goodwill is not amortized but is subject to an impairment test that is conducted at least annually. There is no impairment of goodwill as at December 31, 2004.

Distributable Cash and Distributions

Daylight commenced active oil and gas operations on November 30, 2004 and declared two monthly distributions (November 30, 2004 and December 31, 2004) totaling $9.8 million ($0.24/trust unit).

Daylight expects to distribute $0.12 per unit per month which is approximately 60% of its annual cash flow with the remaining 40% allocated primarily for capital expenditures to maintain production and reserve levels. Daylight's management and the Board of Directors continuously monitor the distribution level in relation to forecast net cash flow, debt levels and capital expenditure plans. Commodity prices and production volumes are critical variables in determining cash flow and changes in these two items has a material impact on cash flow and distributions.

Liquidity and Capital Resources

December, 2004		(000s)
Bank debt	$	89,220
Working capital deficiency		20,820
Total	$	110,040

At December 31, 2004 Daylight had $89 million outstanding on its credit facilities and a working capital deficiency of $21 million, resulting in $110 million of total bank debt net of working capital deficiency. Daylight's current credit facilities provide up to $145 million which is subject to semi-annual review by the banking syndicate.

Management anticipates that Daylight will continue to have adequate liquidity to fund future working capital and forecasted capital expenditures during 2005 through a combination of cash flow and debt. Cash flow used to finance these commitments may reduce the amount of cash distributions paid to unitholders. Major acquisitions draw on existing credit facilities and require the issuance of new equity such as the Flowing trust unit for common share exchange expected to close in April, 2005.

As at December 31, 2004 Daylight had 40,824,926 trust units, 2,497,637 exchangeable shares equivalent to 2,559,853 trust units and $80 million of convertible debentures convertible into 8,421,053 trust units.

As at March 24, 2005 Daylight had 42,136,936 trust units, 1,854,045 exchangeable shares equivalent to 1,944,708 trust units, 683,500 restricted trust units awards and 50,000 performance trust unit awards as well as $73.883 million of convertible debentures convertible to 7,777,158 trust units.

Contractual Obligations

The contractual obligations for which Daylight is responsible are as follows:

Contractual Obligations (000s)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Bank Debt	$ 89,220	-	89,220	-	-
Office Leases	6,145	1,845	3,667	633	-
Natural Gas Transportation	2,037	1,069	776	192	-
Total Contractual Obligations	$ 97,402	2,914	93,663	825	-

Daylight enters into multiple contractual obligations as part of conducting day to day business. Material contractual obligations include bank debt, leases for office space and commitments for natural gas transportation.

Critical Accounting Estimates

The significant accounting policies used by Daylight are disclosed in note 1 to the Consolidated Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion helps to assess the critical accounting policies and practises of Daylight and the likelihood of materially different results being reported.

Reserves

Under the National Instrument 51-101 (NI 51-101) "Proved" reserves are defined as those reserves that can be estimated with a high degree of certainty to be recoverable. The level of certainty should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved reserves.

"Proved plus Probable" reserves are the most likely case and are based on a 50 percent certainty that they will equal or exceed the reserves estimated. The new standard provides for a more conservative evaluation of proved and probable reserves, particularly on new wells where production history has not yet been established.

These oil and gas reserve estimates are made using all available geological and reservoir data, as well as historical production data. All of Daylight's reserves were evaluated and reported on by an independent qualified reserves evaluator. However, revisions can occur as a result of various factors including: actual reservoir performance, changes in price and cost forecasts or a change in Daylight's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other Non-GAAP measurements such as finding and development costs, recycle ratios and net asset value calculations.

Depletion

Daylight follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs related to the acquisition of, exploration for and development of oil and natural gas reserves are capitalized whether successful or not. Depletion of the capitalized oil and natural gas properties and depreciation of production equipment which includes estimated future development costs less estimated salvage values are calculated using the unit-of-production method, based on production volumes in relation to estimated proven reserves.

An increase in estimated proved reserves would result in a reduction in depletion expense. A decrease in estimated future development costs would also result in a reduction in depletion expense.

Unproved Properties

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. These properties are assessed to ascertain whether impairment in value has occurred. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Ceiling Test

The ceiling test is a cost recovery test intended to identify and measure potential impairment of assets. An impairment loss is recorded if the sum of the undiscounted cash flows expected from the production of the proved reserves and the lower of cost and market of unproved properties does not exceed the carrying values of the petroleum and natural gas assets. An impairment loss

is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment as a result of this ceiling test will be charged to operations as additional depletion and depreciation expense.

Asset Retirement Obligations

Daylight records a liability for the fair value of legal obligations associated with the retirement of petroleum and natural gas assets. The liability is equal to the discounted fair value of the obligation in the period in which the asset is recorded with an equal offset to the carrying amount of the asset. The liability then accretes to its fair value with the passage of time and the accretion is recognized as an expense in the financial statements. The total amount of the asset retirement obligation is an estimate based on Daylight's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total amount of the estimated cash flows required to settle the asset retirement obligation, the timing of those cash flows and the discount rate used to calculate the present value of those cash flows are all estimates subject to measurement uncertainty. Any change in these estimates would impact the asset retirement liability and the accretion expense.

Plan of Arrangement

As disclosed in Note 2 to the Consolidated Financial Statements, Daylight acquired Midnight Oil and Gas Ltd., acquired Vintage Petroleum Canada, Inc. and conveyed properties to Midnight Oil Exploration Ltd. The acquisitions have been accounted for by the purchase method using fair values and the conveyance has been accounted for by the continuity of interest method. The determination of fair value involves numerous estimates. The valuation of petroleum and natural gas assets is based on Daylight's estimate of proved plus probable reserves using estimated forecasted prices at the time of the transaction, plus an estimation of unproved properties. Management also estimates the fair value of other assets and liabilities in these transactions and the balances for tax pools. This valuation could differ materially by altering the various assumptions which would have impacted the composition of the balance sheet.

Income Taxes

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Other Estimates

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and operating costs as at a specific reporting date but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. Daylight obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

Anticipated Changes in Accounting Principles During 2005

Exchangeable Shares

On January 19, 2005, the Emerging Issues Committee of the CICA issued EIC Abstract 151, "Exchangeable Securities Issued by Subsidiaries of Income Trusts". EIC 151 requires that exchangeable shares issued by the subsidiaries of an income trust be classified as non-controlling interest unless each of two conditions is met. The first condition is that the holders of the exchangeable shares are entitled to receive distributions of earnings economically equivalent to distributions received by Unitholders. The second condition is that the exchangeable shares are ultimately required, by a specified date, to be exchanged for units of the trust and are non-transferable to third parties. The EIC has revised EIC 151 such that it will be necessary to satisfy both parts of the second condition, and that the revisions will be effective for periods ending on or after June 30, 2005. The Trust is currently assessing the impact this will have on the consolidated financial statements.

Emerging Areas

Internal Control Reporting

Multilateral Instrument 52-111 proposes standards for reporting on internal controls over financial reporting related to the evaluation, assessment and certification of the internal controls over financial reporting by management and an external audit of managements' assessment of the internal controls. The objective of the proposed standards is to improve the quality and reliability of financial reporting by requiring issuers to evaluate internal controls over the preparation of financial statements. The new rules are expected to be applied to Daylight for the December 31, 2006 year end and Daylight is taking the steps necessary to ensure we are in full compliance by that date.

Risks and Uncertainties

Daylight is subject to multiple business risks that are similar to other entities involved in the conventional energy trust sector. Daylight's financial position, results of operations, cash flows and distributions to unitholders are directly impacted by the following factors:

Volatility of Oil and Natural Gas Prices

Operational results and the financial condition of Daylight will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by economic and in the case of oil prices, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions impact prices. Any movement in oil and natural gas prices could have an effect on Daylight's financial condition and therefore on the cash available to be distributed to unitholders. Daylight may manage the risk associated with changes in commodity prices by entering into oil or natural gas price hedges. If Daylight hedges its commodity price exposure, it will forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity hedging activities could expose Daylight to losses. To the extent that Daylight engages in risk management activities related to commodity prices, it will be subject to credit risks associated with counterparties contracted with.

Variations in Interest Rates and Foreign Exchange Rates

An increase in interest rates could result in a significant increase in the amount Daylight pays to service debt, resulting in a decrease in distributions to unitholders, as well as impact the market price of the trust units.

World oil prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate that may fluctuate over time. A material increase in the value of the Canadian dollar may negatively impact Daylight's operating entities net production revenue.

In addition, the exchange rate for the Canadian dollar versus the U.S. dollar has increased significantly over the last 12 months, resulting in the receipt by Daylight of fewer Canadian dollars for production which may affect future distributions. To the extent that Daylight engages in risk management activities related to foreign exchange rates, it will be subject to credit risk associated with counterparties contracted with. The increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates will impact future distributions and the future value of reserves as determined by Daylight's independent evaluators.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and cash flows to be derived therefrom, including many factors beyond Daylight's control. The reserve and associated cash flow information represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. Daylight's actual production, revenues and development and operating expenditures with respect to reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices may result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, Daylight's independent petroleum engineering firm has used both constant and forecast price and cost estimates in calculating reserve quantities. Actual future net cash flows will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived therefrom will vary from the estimates contained in the engineering report, and such variations could be material. The engineering report is based in part on the assumed success of activities Daylight intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the engineering report will be reduced to the extent that such activities do not achieve the level of success assumed.

Depletion of Reserves

Distributions of income from Daylight properties, absent commodity price increases or cost effective acquisition and development activities, will decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. Daylight will not be reinvesting cash flow in the same manner as other industry participants as Daylight conducts only minimal exploratory activities; nor to the same extent as other industry participants as one of Daylight's main objectives is to maximize long-term distributions. Accordingly, absent capital injections, production levels and reserves will decline and the level of income available for distributions will be reduced.

Future oil and natural gas reserves and production, and therefore Daylight's cash flows, will be highly dependent on Daylight's success in exploiting its reserve base and acquiring additional reserves. Without reserve additions through acquisition or development activities, reserves and production will decline over time as reserves are exploited.

To the extent that external sources of capital, including the issuance of additional trust units become limited or unavailable, Daylights ability to make the necessary capital investments to maintain or expand oil and natural gas reserves will be impaired. To the extent that Daylight requires the use of cash flow to finance capital expenditures or property acquisitions, the level of income available for distributions will be reduced.

There can be no assurance that Daylight will be successful in developing or acquiring additional reserves on terms that meet its investment objectives.

Environmental Concerns

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Daylight's operating entities to incur costs to remedy such discharge. Although Daylight believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Daylight's financial condition, results of operations or prospects.

Operational Matters

Continuing production from a property, and to some extent the marketing of production therefrom, depend upon many factors, including the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat Daylight's claim or its subsidiaries to certain properties. Any such circumstances could impair the ability of Daylight Energy to satisfy its obligations or otherwise reduce the amount received by Daylight.

Insurance

Daylight's involvement in the exploration for and development of oil and natural gas properties may result in Daylight becoming subject to liability for pollution, blowouts, property damage, personal injury or other hazards. Although prior to drilling Daylight's operating entities will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, Daylight's operating entities may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Daylight. The occurrence of a significant event that was not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Daylight's operating subsidiaries financial position, results of operations or prospects and will reduce income otherwise distributable.

Changes in Legislation

Income tax laws, or other laws or government incentive programs relating to the oil and gas industry, such as the treatment of mutual fund trusts and resource taxation, may in the future be changed or interpreted in a manner that adversely affects Daylight and the unitholders. Tax authorities having jurisdiction over Daylight or unitholders may disagree with how Daylight calculates its income for tax purposes or could change administrative practises to the detriment of Daylight or its unitholders.

Daylight intends to continue to qualify as a mutual fund trust for purposes of the Income Tax Act (Canada). Daylight may not, however, always be able to satisfy any future requirements for the maintenance of mutual fund trust status. Should Daylight's status as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for Daylight and its unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- Daylight would be taxed on certain types of income distributed to unitholders, including income generated by the royalties held. Payment of this tax may have adverse consequences for some unitholders, particularly unitholders that are not residents of Canada and residents of Canada that are otherwise exempt from Canadian income tax.

- Daylight would cease to be eligible for the capital gains refund mechanism available under Canadian tax laws if it ceased to be a mutual fund trust.

- Trust units held by unitholders that are not residents of Canada would become taxable Canadian property. These non-resident holders would be subject to Canadian income tax on any gains realized on a disposition of trust units held by them.

- Trust units would not constitute qualified investments for registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered education savings plans ("RESPs") or deferred profit sharing plans ("DPSPs"). If, at the end of any month, one of these exempt plans holds Trust Units that are not qualified investments, the plan must pay a tax equal to 1% of the fair market value of the trust units at the time the trust units were acquired by the exempt plan. An RRSP or RRIF holding non-qualified trust units would be subject to taxation on income attributable to the trust units. If an RESP holds non-qualified trust units, it may have its registration revoked by the Canada Revenue Agency.

Daylight may take certain measures in the future to the extent considered necessary to ensure that status as a mutual fund trust is maintained. These measures could be adverse to certain holders of trust units, particularly "non-residents" of Canada as defined in the Income Tax Act (Canada).

Debt Service

Daylight Energy may, from time to time, finance a significant portion of its operations through debt. Amounts paid in respect of interest and principal on debt incurred by Daylight Energy may impair Daylight Energy's ability to satisfy its obligations Daylight. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment by Daylight Energy of its obligation to Daylight. Ultimately, this may result in lower levels of distributable cash.

Pursuant to its credit facilities, Daylight Energy is restricted from making distributions to Daylight, including payments of principal and interest in the following circumstances: (i) after a demand has been made under the facility; (ii) after a default or event of default has occurred under the facility or if the borrowings thereunder exceed the borrowing base established from time to time by the lender; and (iii) if such distribution would result in a default or event of default under the facility. This may restrict the ability of Daylight Energy to pay Daylight, and therefore may limit or eliminate cash available for distribution.

Lenders will be provided with security over all of the assets of Daylight Energy. If Daylight Energy becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, a lender may foreclose on or sell the assets of Daylight Energy.

Delay in Cash Distributions

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the properties, and by the operator to Daylight Energy, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the properties or the establishment by the operator of reserves for such expenses.

Reliance on Management

Unitholders will be dependent on the management of Daylight Energy in respect of the administration and management of all matters relating to its operations. Daylight Energy, as of December 31, 2004, operated approximately 70% of total daily production. Investors who are not willing to rely on the management of Daylight Energy should not invest in the trust units, exchangeable shares and/or convertible debentures.

Expansion of Operations

The operations and expertise of management are currently focused on conventional oil and gas production and development in the Western Canadian Sedimentary Basin. In the future, Daylight may acquire oil and gas properties outside this geographic area. In addition, the Trust Indenture does not limit Daylight's activities to oil and gas production and development, and Daylight could acquire other energy related assets, such as oil and natural gas processing plants or pipelines. Expansion activities into new areas may present new additional risks or alternatively, significantly increase the exposure to one or more of the present risk factors which may result in future operational and financial conditions being adversely affected.

Net Asset Value

Daylight's net asset value from time to time will vary dependent upon a number of factors beyond the control of management, including oil and gas prices. The trading prices of the trust units from time to time is also determined by a number of factors which are beyond the control of management and such trading prices may be greater than Daylight's net asset value.

Additional Financing

In the normal course of making capital investments to maintain and expand Daylight's oil and gas reserves, additional trust units may be issued from treasury which may result in a decline in production per trust unit and reserves per trust unit. Additionally, from time to time Daylight may issue trust units from treasury in order to reduce debt and maintain a more optimal capital structure. Conversely to the extent that external sources of capital, including the issuance of additional trust units become limited or unavailable, Daylight's ability to make the necessary capital investments to maintain or expand oil and gas reserves will be impaired. To the extent that Daylight is required to use cash flow to finance capital expenditures or property acquisitions or to pay debt service charges or to reduce debt, the level of income available for distributions will be reduced.

Competition

There is strong competition relating to all aspects of the oil and gas industry. There are numerous trusts in the oil and gas industry, who are competing for the acquisitions of properties with longer life reserves and properties with exploitation and development opportunities. As a result of such increasing competition, it will be more difficult to acquire reserves on beneficial terms. Daylight also competes for reserve acquisitions and skilled industry personnel with a substantial number of other oil and gas companies and trusts, many of which have significantly greater financial and other resources.

Accounting Write-Downs as a Result of GAAP

Canadian Generally Accepted Accounting Principles ("GAAP") require that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in Daylight's consolidated financial statements. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the market and result in an inability to borrow funds and/or may result in a decline in the trust unit price.

Under GAAP, the net amounts at which petroleum and natural gas costs on a property or project basis are carried are subject to a cost-recovery test, which is based in part upon estimated future net cash flows from reserves. If net capitalized costs exceed the estimated recoverable amounts, Daylight will have to charge the amounts of the excess to earnings. A decline in the net value of oil and natural gas properties could cause capitalized costs to exceed the cost ceiling, resulting in a charge against earnings. The net value of oil and gas properties are highly dependent upon the prices of oil and natural gas.

GAAP requires that goodwill balances be assessed at least annually for impairment and that any permanent impairment be charged to net income. A permanent reduction in reserves, decline in commodity prices, and/or reduction in the trust unit price may indicate a goodwill impairment. As at December 31, 2004 Daylight had goodwill recorded on the balance sheet. An impairment would result in a write-down of the goodwill value and a non-cash charge against net income. The calculation of impairment value is subject to management estimates and assumptions.

Emerging GAAP surrounding hedge accounting may result in non-cash charges against net income as a result of changes in the fair market value of hedging instruments. A decrease in the fair market value of the hedging instruments as the result of fluctuations in commodity prices and foreign exchange rates may result in a write-down of net assets and a non-cash charge against net income. Such write-downs and non-cash charges may be temporary in nature if the fair market value subsequently increases.

Return of Capital

Trust units will have no value when Daylight's oil and gas properties can no longer be economically produced and, as a result, cash distributions do not represent a "yield" in the traditional sense and are not comparable to bonds or other fixed yield securities, where investors are entitled to a full return of the principal amount of debt on maturity in addition to a return on investment through interest payments. Distributions represent a blend of return of unitholders initial investment and a return on unitholders initial investment.

Unitholders have a limited right to require Daylight to repurchase their trust units, which is referred to as a redemption right. It is anticipated that the redemption right will not be the primary mechanism for unitholders to liquidate their investment. The right to receive cash in connection with a redemption is subject to limitations.

Nature of Trust Units

Trust units do not represent a traditional investment in the oil and natural gas sector and should not be viewed as shares in Daylight Energy. Trust units represent a fractional interest in the Trust. As holders of trust units, unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. Daylight's sole assets are investments in Daylight Energy. The price per trust unit is a function of anticipated distributable cash, underlying assets and management's ability to effect long-term growth in value. The market price of the trust units will be sensitive to a variety of market conditions including, but not limited to, interest rates and Daylight's ability to acquire suitable oil and natural gas properties. Changes in market conditions may adversely affect the trading price of the trust units.

The trust units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, Daylight is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it do not carry on or intend to carry on the business of a trust company.

Exchangeable Shares

An investment in exchangeable shares should be considered speculative due to the fact that adjustments to the exchange ratio are made assuming reinvestment of distributions or dividends, as applicable, at the prevailing market price of a trust unit at the time at which any such distributions are made on the trust units or any such dividends are paid on the exchangeable shares. As a result, the cumulative return on an investment in exchangeable shares may be higher or lower than that on an investment in trust units over a comparable period.

Unitholder Limited Liability

The Trust Indenture provides that no unitholder will be subject to any liability in connection with Daylight or its obligations and affairs and, in the event that a court determines unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of Daylight assets. Pursuant to the Trust Indenture, Daylight will indemnify and hold harmless each unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a unitholder resulting from or arising out of such unitholder not having such limited liability.

The Trust Indenture provides that all written instruments signed by or on behalf of Daylight must contain a provision to the effect that such obligation will not be binding upon unitholders personally. Personal liability may also arise in respect of claims against Daylight that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

Daylight's operations will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the unitholders for claims.

In addition, the Income Trust Liability Act (Alberta) was proclaimed in force in Alberta on June 30, 2004. The Income Trust Liability Act (Alberta) provides that the beneficiary of a trust that is (a) created by a trust instrument governed by the laws of Alberta, and (b) a reporting issuer as defined in the Securities Act (Alberta), is not liable as a beneficiary for any act, default, obligation or liability of the trustee.

Stability Rating

Daylight does not have a stability rating and has no current plans to apply for a stability rating.

Non-Resident Ownership of Trust Units

In order for Daylight to maintain its status as a mutual fund trust under the Income Tax Act (Canada), it must not be established or maintained primarily for the benefit of non-residents within the meaning of the Income Tax Act (Canada). The Trust Indenture provides that if at any time Daylight become aware that the beneficial owners of 45% or more of the trust units then outstanding are or may be non-residents or that such a situation is imminent, Daylight shall take such action as may be necessary to carry out the foregoing intention.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. Daylight's operations may require licenses from various governmental authorities. There can be no assurance that Daylight will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at planned projects.

Maintenance of Distributions

Daylight adds to it oil and natural gas reserves primarily through development and acquisitions with only a small percentage of the capital directed to exploitation. As a result, future oil and natural gas reserves are highly dependent on Daylight's operating entities success in exploiting existing properties and acquiring additional reserves. Daylight also distributes the majority of its net cash flow to unitholders rather than reinvesting it in reserve additions. Accordingly, if external sources of capital, including the issuance of additional trust units, become limited or unavailable on commercially reasonable terms, Daylight's operating entities ability to make the necessary capital investments to maintain or expand oil and natural gas reserves will be impaired. To the extent that Daylight's operating entities are required to use cash flow to finance capital expenditures or property acquisitions, the level of cash flow available for distribution to unitholders will be reduced. Additionally, Daylight cannot guarantee that it will be successful in developing additional reserves or acquiring additional reserves on terms that meet its investment objectives. Without these reserve additions, Daylight's reserves will deplete and as a consequence, either production from, or the average reserve life of, Daylight properties will decline. Either decline may result in a reduction in the value of trust units and in a reduction in cash available for distributions to unitholders.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so called "greenhouse natural gases". Daylight's exploration and production facilities and other operations and activities emit a small amount of greenhouse natural gases which may subject Daylight to legislation

regulating emissions of greenhouse natural gases. The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse natural gases emission reduction requirements for various industrial activities, including oil and natural gas exploration and production. Future federal legislation, together with provincial emission reduction requirements such as those proposed in Alberta's Bill 37: Climate Change and Emissions Management, may require the reduction of emissions or emissions intensity produced by Daylight's operations and facilities. The direct or indirect costs of these regulations may adversely affect Daylight's business.

Taxation of Daylight Energy

Daylight Energy is subject to taxation in each taxation year on its income for the year, after deducting certain payments made to Daylight. During the period that exchangeable shares issued by Daylight Energy are outstanding, a portion of the cash flow from operations will be subject to tax to the extent that there are not sufficient resource pool deductions, capital cost allowance or utilization of prior years non-capital losses to reduce taxable income to zero. Daylight Energy intends to deduct, in computing its income for tax purposes, the full amount available for deduction in each year associated with the income tax resource pools, undepreciated capital cost ("UCC") and non-capital losses carried forward from MOG and VPCI, if any, plus resource pools and UCC created by capital expenditures of Daylight Energy. If there are not sufficient resource pools, UCC and non-capital losses carried forward to shelter the income of Daylight Energy, then cash taxes would be payable by Daylight Energy. In addition, there can be no assurance that taxation authorities will not seek to challenge certain amounts. If such a challenge were to succeed against Daylight Energy, it could materially adversely affect the amount of distributable cash available.

Further, interest on a note payable accrues Daylight for income tax purposes whether or not actually paid. The Trust Indenture provides that an amount equal to the taxable income of Daylight will be distributed each year to unitholders in order to reduce Daylight's taxable income to zero. Where interest payments on the note payable are due but not paid in whole or in part, the Trust Indenture provides that any additional amount necessary to be distributed to unitholders may be distributed in the form of trust units rather than in cash. Daylight unitholders will be required to include such additional amount in income even though they do not receive a cash distribution.

MANAGEMENT'S RESPONSIBILITY STATEMENT

The financial statements of Daylight Energy Trust and all information in this document are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements include amounts that are based on estimates, which have been objectively developed by management using all relevant information. All financial and operating data in this document is consistent with the information in the financial statements.

Daylight Energy Trust maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the preparation of financial statements.

KPMG LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements and provide their auditor's report. Their report is presented with the financial statements.

The directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is comprised entirely of outside directors and meets regularly with management and with the Company's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

Signed: "Anthony Lambert"

Anthony Lambert
President and CEO

Signed: "Steve Nielsen"

Steve Nielsen
Vice President Finance and CFO

Calgary, Alberta
March 24, 2005

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheet of Daylight Energy Trust as at December 31, 2004 and the consolidated statements of income and accumulated income and cash flows for the period from October 21, 2004 to December 31, 2004. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2004 and the results of its operations and its cash flows for the period from October 21, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Signed: "KPMG LLP"

Chartered Accountants

Calgary, Canada
March 24, 2005

Consolidated Balance Sheet

As at December 31, 2004
(in thousands of dollars)

	2004
Assets	
Current assets	
Accounts receivable	$ 27,551
Prepaid expenses and deposits	955
	28,506
Petroleum and natural gas assets (note 3)	402,729
Deferred financing charges (note 5)	3,680
Goodwill (note 2)	180,571
	$ 615,486
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	$ 44,427
Cash distributions payable	4,899
	49,326
Bank debt (note 4)	89,220
Convertible debentures (note 5)	77,718
Asset retirement obligations (note 7)	16,528
Future taxes (note 9)	13,447
	246,239
Unitholders' Equity	
Unitholders' capital (note 8)	351,639
Exchangeable shares (note 8)	23,978
Equity component of convertible debentures (note 5)	2,320
Accumulated income	1,087
Accumulated distributions	(9,777)
	369,247
	$ 615,486

Commitments (note 12)
Subsequent event (note 14)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Signed: "Peter Harrison"

Peter Harrison
Director

Signed: "Jeff Tonken"

Jeff Tonken
Director

Consolidated Statement of Income and Accumulated Income

For the period October 21, 2004 to December 31, 2004
(in thousands of dollars, except per unit amounts)

	2004
Revenues	
Petroleum and natural gas	$ 17,377
Royalties, net of ARTC	(3,662)
Interest income	726
	14,441
Expenses	
Operating	4,335
Transportation	153
General and administrative	987
Financial charges (note 6)	1,777
Depletion, depreciation and accretion	7,119
	14,371
Income before taxes	70
Taxes (note 9)	
Capital taxes	92
Future tax reduction	(1,109)
	(1,017)
Net income and accumulated income at end of period	$ 1,087
Net income per unit (note 8(c))	
Basic	$ 0.04
Diluted	$ 0.04

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

For the period October 21, 2004 to December 31, 2004
(in thousands of dollars)

	2004
Cash provided by (used in):	
Operating	
Net income	$ 1,087
Items not affecting cash:	
Depletion, depreciation and accretion	7,119
Future tax reduction	(1,109)
Non-cash financial charges	100
Asset retirement expenditures	(223)
Funds from operations	6,974
Change in non-cash operating working capital (note 10)	2,418
	9,392
Financing	
Bank debt	49,616
Convertible debentures issued	80,000
Deferred financing charges	(3,742)
Issue of trust units, net of issue costs	165,922
Cash distributions to unitholders	(4,878)
Change in non-cash financing working capital (note 10)	4,899
	291,817
Investing	
Corporate acquisitions	(311,433)
Petroleum and natural gas additions	(5,057)
Change in non-cash investing working capital (note 10)	15,281
	(301,209)
Change in cash during the period	-
Cash, beginning of period	-
Cash, end of period	$ -

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the period October 21, 2004 to December 31, 2004

Tabular amounts are stated in thousands of dollars except unit, share, per unit and per share amounts.

Daylight Energy Trust ("Daylight" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the province of Alberta pursuant to a Trust Indenture. Valiant Trust Company has been appointed trustee under the Trust Indenture. The beneficiaries of the Trust are the holders of the Trust units ("unitholders").

The Trust was formed on October 1, 2004, completed a private placement on October 21, 2004 and began active oil and gas operations through its subsidiary, Daylight Energy Ltd. ("Daylight Energy") as part of a Plan of Arrangement ("Plan of Arrangement") on November 30, 2004. The acquisition of Vintage Petroleum Canada, Inc. ("VPCI") and Midnight Oil and Gas Ltd. ("MOG") has been accounted for by the purchase method using fair values as at November 30, 2004. The conveyance of assets to Midnight Oil Exploration Ltd. ("MOX") has been accounted for by the continuity of interests method. The consolidated financial statements reflect the financial position, results of operations and cash flows since Daylight's private placement on October 21, 2004 with oil and gas operations commencing on November 30, 2004 in accordance with the Plan of Arrangement.

Daylight is involved in the exploitation, development and production of petroleum and natural gas in Alberta, British Columbia and Saskatchewan.

1. Significant Accounting Policies

The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results may differ materially from those estimates.

Specifically, the amounts recorded for depletion, depreciation and accretion of petroleum and natural gas assets and asset retirement obligations are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

Consolidation

The consolidated financial statements include the accounts of Daylight and its subsidiary, Daylight Energy. All inter-entity balances and transactions have been eliminated.

Petroleum and Natural Gas Assets

Daylight follows the full cost method of accounting for petroleum and natural gas operations whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive

and non-productive wells, the cost of petroleum and natural gas production equipment, asset retirement costs and overhead charges related to exploration and development activities.

Daylight evaluates its petroleum and natural gas assets in each reporting period to determine that the costs are recoverable and the costs do not exceed the fair value of the properties. If the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the petroleum and natural gas assets, the costs are considered recoverable. If the carrying value of the petroleum and natural gas assets is not considered to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using a risk-free rate.

Proceeds from the disposition of petroleum and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20% or more, in which case a gain or loss would be recorded.

Depletion of petroleum and natural gas assets and depreciation of production equipment are calculated using the unit-of-production method, based on production volumes before royalties in relation to estimated proven reserves as determined by an independent petroleum engineering firm. Natural gas reserves and production are converted to equivalent barrels of oil based upon the relative energy content of six thousand cubic feet of gas to one barrel of oil.

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. A separate impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is an impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Goodwill

Goodwill represents the excess of purchase price of a business above the fair value of net assets acquired. Goodwill in not amortized and is tested for impairment at least annually or more frequently if economic events dictate. A goodwill impairment provision would be recognized when the recorded amount of goodwill exceeds its fair value. Should an impairment provision be required, it will be charged to income in the period of impairment.

Asset Retirement Obligations

Daylight records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, which is normally when the asset is purchased, constructed or developed discounted to its present value using the credit adjusted risk-free interest rate. At recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to income, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability to the extent of the liability recorded.

Revenue Recognition

Revenue associated with sale of crude oil, natural gas and natural gas liquids is recognized when legal title passes to the purchaser.

Taxes

Daylight is a taxable entity under the Canadian Income Tax Act ("Act") and is taxable only on income that is not distributed or distributable to its unitholders. Since Daylight distributes all of its taxable income (if any) to its unitholders and meets the requirements of the Act, no provision for income tax has been made in the Trust.

Daylight Energy follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of Daylight Energy and their respective tax basis, using substantially enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

Deferred Financing Charges

Deferred financing charges include the unamortized cost of issuing the convertible debentures and the unamortized cost of establishing the revolving term facility. Amortization is provided on a straight-line basis over the term of the related debt and is included in financial charges for the period.

Joint Operations

Daylight conducts development and production activities jointly with others. These financial statements only reflect Daylight's proportionate interest in such activities.

Cash and Cash Equivalents

Daylight considers cash and investments with a maturity of three months or less to be cash equivalents.

Unit Based Compensation

The Trust has established a unit award incentive plan for employees, officers, directors and other service providers. The Trust uses the fair value method for valuing unit based compensation. Under this method, compensation cost attributable to the unit awards are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon settlement of the unit awards, the previously recognized value in contributed surplus will be recorded as an increase to Unitholders' capital.

Per Unit Information

Basic income per unit is calculated using the weighted average number of units outstanding during the year adjusted for the impact of units to be issued on the conversion of exchangeable shares. Diluted income per unit is calculated using the treasury stock method to determine the dilutive effects of convertible debentures and grants under the unit award incentive plan.

2. Plan of Arrangement

The Plan of Arrangement involved the acquisition of Vintage Petroleum Canada, Inc. ("VPCI") and Midnight Oil and Gas Ltd. ("MOG") by Daylight Energy on November 30, 2004 with certain assets conveyed to a new exploration focused entity, Midnight Oil Exploration Ltd. ("MOX"). As a result of the Plan of Arrangement former shareholders of MOG received one Daylight trust unit or one Daylight Energy exchangeable share for each MOG share held as well as 0.5 shares of MOX for each MOG share held.

a) Midnight Oil and Gas Ltd.

On November 30, 2004, pursuant to the Plan of Arrangement, Daylight Energy acquired all the issued and outstanding shares of MOG. The acquisition has been accounted for by the purchase method with oil and gas operating results included in the financial statements commencing November 30, 2004. As part of the Plan of Arrangement options were transferred to Daylight and exercised resulting in the issuance of 1,022,237 trust units. As consideration, former MOG shareholders received 1 trust unit or exchangeable share for each MOG share resulting in the issuance of 22,574,640 trust units and 2,518,497 exchangeable shares, including the exercise of options. The value of the transaction was $240.9 million with fair values as detailed below:

Net assets acquired:	
Petroleum and natural gas assets	$ 109,151
Goodwill	164,707
Bank debt	(41,604)
Working capital	12,459
Asset retirement obligations	(3,471)
Future taxes	(300)
Total net assets acquired	$ 240,942

Consideration:	
Trust units issued	$ 216,764
Exchangeable shares issued	24,178
Total purchase price	$ 240,942

b) Vintage Petroleum Canada, Inc.

On November 30, 2004, pursuant to the Plan of Arrangement, Daylight Energy acquired all the issued and outstanding shares of VPCI. The acquisition has been accounted for by the purchase method with oil and gas operating results included in the financial statements commencing November 30, 2004. The value of the transaction was $350.8 million with fair values as detailed below:

Net assets acquired:	
Petroleum and natural gas assets	$ 328,940
Goodwill	15,864
Cash	39,414
Non-cash working capital	(5,644)
Asset retirement obligations	(13,666)
Future taxes	(14,061)
Total net assets acquired	$ 350,847

Consideration:	
Cash	$ 350,847
Total purchase price	$ 350,847

The above amounts are estimates made by management based on currently available information. Amendments may be made to the purchase equation as the cost estimates and tax balances are finalized.

c) Midnight Oil Exploration Ltd.

Under the Plan of Arrangement, certain assets of Daylight Energy were transferred to MOX. At the time of the transaction, the entities were related and therefore the assets and liabilities of MOX have been transferred on a continuity of interests basis using the following fair value allocations:

Net assets disposed:	
Petroleum and natural gas assets	$ 33,456
Future taxes	195
Working Capital	138
Debt assumed	(2,000)
Asset retirement obligations	(542)
	$ 31,247

Relationship with MOX

In conjunction with the Plan of Arrangement, Daylight Energy and MOX entered into an Administrative and Technical Services Agreement which provides for the shared services required to manage MOX's activities and governs the allocation of general and administrative expenses between the entities. Under this agreement, Daylight receives payment for certain technical and administrative services provided to MOX on a cost recovery basis.

3. Petroleum and Natural Gas Assets

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 408,065	6,970	$ 401,095
Other assets	1,672	38	1,634
Balance, December 31, 2004	$ 409,737	7,008	$ 402,729

During the period, Daylight capitalized $204,000 of general and administrative expenses related to exploration and development activities.

Future development costs of $23.9 million associated with proven reserves were included in the depletion and depreciation calculation. Future salvage value of production equipment and facilities of $24.6 million and a cost of $32.6 million for unproven properties have been excluded from the depletion and depreciation calculation.

At December 31, 2004, Daylight applied a ceiling test to its petroleum and natural gas assets and determined that no impairment has occurred. The ceiling test was calculated using the following expected future market price:

Benchmark reference price forecast	2005	2006	2007	2008	2009	2010 to 2015
WTI ($US/bbl)	42.00	40.00	38.00	36.00	34.00	33.50
Edmonton Par ($Cdn/bbl)	50.25	47.75	45.50	43.25	40.75	40.08
AECO ($Cdn/mcf)	6.60	6.35	6.15	6.00	6.00	6.10
Exchange rate ($Cdn/$US)	0.82	0.82	0.82	0.82	0.82	0.82

After 2015 the price forecast for WTI, Edmonton Par and AECO escalate at 2% per year to the end of the reserve life and the exchange rate remains constant at 0.82.

4. Bank Debt

Daylight has a $145 million revolving term facility with a syndicate of banks of which $89.2 million was drawn at December 31, 2004. The effective interest rate for the bank debt was 4.5% for the period ended December 31, 2004. The full facility bears interest at the lenders' prime rate and/or at money market rates plus a stamping fee. The facility is secured with a demand debenture over the petroleum and natural gas assets of $250 million and is subject to semi-annual review where the lenders may re-determine the borrowing base.

Pursuant to the terms of the credit facility dated November 29, 2004, Daylight may, with the bank's approval, extend the revolving period for a further 364 day period. If not extended, the revolving facility will automatically convert to a one year and one day non-revolving term facility with the entire payment due on the 366th day after commencement of the term period. The credit facility has been classified as long-term on the balance sheet at December 31, 2004.

5. Convertible Debentures

On October 21, 2004 Daylight issued $80 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures (the "Debentures") for net proceeds of $76.8 million. Issue costs of $3.2 million have been classified as deferred financing charges.

The Debentures pay interest semi-annually on June 1 and December 1 and have a maturity date of December 1, 2009. The Debentures are convertible at the option of the holder to Trust Units at a conversion price of $9.50 per Trust Unit. Daylight has the option to redeem the Debentures at a price of $1,050 per Debenture after December 1, 2007 and on or before December 1, 2008, at a price of $1,025 per Debenture after December 1, 2008 and on or before December 1, 2009 and on maturity at $1,000 per Debenture. On redemption or maturity the Trust may elect to satisfy its obligations to repay the principal and may satisfy its interest obligations by issuing Daylight Energy Trust Units.

The Debentures were initially recorded at the fair value of the obligation without the conversion feature. This fair value to make future payments of principal and interest was determined to be $77.68 million. The difference between the principal amount of $80 million and the fair value of the obligation is $2.32 million and has been recorded in unitholders' equity as the fair value of the conversion feature of the Debentures.

The Debentures are being accreted such that the liability at maturity will equal the gross proceeds of $80 million less conversions. For the period ended December 31, 2004 $38,000 of accretion has been included in financial charges. As at December 31, 2004, no Debentures had been converted to equity.

6. Financial Charges

During the period ended December 31, 2004, Daylight incurred cash interest charges on bank debt and convertible debentures as well as the non-cash amortization of financial charges and accretion of convertible debenture liability as follows:

Bank debt interest	$	337
Convertible debenture interest		1,340
Amortization of financial charges		62
Accretion of convertible debenture liability		38
Period ended December 31, 2004	$	1,777

7. Asset Retirement Obligations

Daylight's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. Daylight estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately $42.5 million which will be incurred between 2005 and 2054. The majority of the costs will be incurred between 2005 and 2021. An inflation factor of 2% has been applied to the estimated asset retirement cost. A credit-adjusted risk-free rate of 8% was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided as follows:

	2004
Acquired on Plan of Arrangement (note 2)	$ 16,595
Liabilities incurred	45
Liabilities settled	(223)
Accretion expense	111
Balance, December 31, 2004	$ 16,528

8. Unitholders' Equity

The Trust Indenture provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distributions from the Trust and in the assets of the Trust in the event of termination or winding-up of the Trust. All trust units are of the same class with equal rights and privileges.

a) Trust Units

Unitholders' capital	Number of Units	Amount
Trust Units:		
Issued on Plan of Arrangement (note 2)	22,574,640	$ 185,517
Issued on private placement	18,229,167	175,000
Issued on retraction of exchangeable shares	21,119	200
Unit issue costs	-	(9,078)
Balance, December 31, 2004	40,824,926	$ 351,639

Private Placement

On October 21, 2004 Daylight raised gross proceeds of $175 million by way of a private placement of 18,229,167 Subscription Receipts at a price of $9.60 per Subscription Receipt. On November 30, 2004 each Subscription Receipt converted into one Trust Unit and 0.5 shares of MOX.

Redemption Right

Unitholders may redeem their trust units for cash at any time, up to a maximum of $250,000 in any calendar month, by delivering their unit certificates to the Trustee, together with a properly completed notice of redemption. The redemption amount per trust unit will be the lesser of 90 percent of the market price of the trust units on the principal market on which they are traded during the 10 day trading period after the trust units have been validly tendered for the redemption and the closing market price of the trust units on the principal market on which they are traded on the date on which they were validly tendered for redemption, or if there was no trade of the trust units on that date, the average of the last bid and ask prices of the trust units on that date.

b) Exchangeable Shares

Daylight Energy is authorized to issue an unlimited number of exchangeable shares. Exchangeable shares are convertible into trust units based on the exchange ratio, which is adjusted monthly to reflect the distribution paid on the trust units. Cash distributions are not paid on exchangeable shares.

	Number of Shares	Amount
Exchangeable shares:		
Issued on acquisition of MOG (note 2)	2,518,497	$ 24,178
Retracted for Trust Units	(20,860)	(200)
Balance, December 31, 2004	2,497,637	$ 23,978

The exchangeable shares can be retracted, at the option of the holder into trust units at any time. If the number of exchangeable shares outstanding is less than 400,000 the Trust can elect to redeem the exchangeable shares for trust units or an amount in cash equal to the amount determined by multiplying the exchange ratio on the last business day prior to the redemption date by the current market price of a trust unit on the last business day prior to such redemption date. The number of trust units issued upon conversion is based on the exchange ratio in effect on the date of conversion. The exchange ratio is calculated monthly based on the five day weighted average trust unit trading price preceding the monthly distribution record date. The exchange ratio at December 31, 2004 was 1.02491. The exchangeable shares are not eligible for cash distributions.

Retraction of Exchangeable Shares

The retraction price will be satisfied with trust units equal to the amount determined by multiplying the exchange ratio on the last business day prior to the retraction date by the number of exchangeable shares redeemed.

Redemption of Exchangeable Shares

On November 30, 2007 the exchangeable shares will be, unless extended by the Board of Directors, redeemed by the Trust. The exchangeable shares may be redeemed by either issuing units or the payment in cash for an amount equivalent to the value of the exchangeable shares at the applicable exchange ratio.

c) Net Income Per Unit

The following table summarizes the weighted average trust units, exchangeable shares and convertible debentures used in calculating net income per trust unit:

Trust units	28,262,340
Exchangeable shares at exchange ratio	1,133,256
Basic	29,395,596
Convertible debentures	8,421,053
Diluted	37,816,649

Basic net income per unit includes net income of $1,087,000 for the period ended December 31, 2004 and diluted net income per unit adds back convertible debenture interest expense of $1,340,000 for the period ended December 31, 2004.

d) Unit Award Incentive Plan

Daylight has a Unit Award Incentive Plan which allows the Board of Directors to grant up to 2,158,106 units consisting of Restricted and Performance Unit awards to directors, officers, employees and service providers of Daylight and its affiliates. The Restricted Unit Awards vest equally over a three-year period. The Performance Unit Awards vest on the third anniversary of the date of the grant. The number of units issued under the Performance Unit Awards granted is subject to a performance multiplier and is dependent on the performance of the Trust relative to a peer comparison group of oil and gas trusts. A holder of a Restricted or Performance Unit Award may elect, subject to consent of Daylight, to receive cash upon vesting in lieu of the number of units held. The plan provides for adjustments to the number of units issued based on the cumulative distributions of the Trust during the period that the Restricted or Performance Unit is outstanding. No Restricted or Performance Unit Awards were granted during 2004.

e) Accumulated Distributions

The table below shows the cumulative distributions to unitholders:

Record Date	Distribution Per Unit	Amount
November 30, 2004	$ 0.12	$ 4,878
December 31, 2004	0.12	4,899
Period ended December 31, 2004	$ 0.24	$ 9,777

9. Taxes

The combined provision for taxes in the consolidated statements of income and accumulated income reflect an effective tax rate which differs from the expected statutory tax rate. Differences are accounted for as follows:

Income before taxes	$	70
Statutory income tax rate		38.62%
Expected taxes	$	27
Add (deduct)		
Net income of the Trust		(1,309)
Non-deductible crown charges		961
Resource allowance		(740)
Future tax rate reductions		(74)
Capital taxes		92
Other		26
Period ended December 31, 2004	$	(1,017)

Future Taxes

The future tax liability at December 31, 2004 is comprised of the tax effect of temporary differences as follows:

Petroleum and natural gas assets	$	23,047
Asset retirement obligations		(5,950)
Non-capital loss carry-forwards		(2,494)
Share issue costs		(1,156)
Balance, December 31, 2004	$	13,447

As at December 31, 2004, Daylight Energy had $6.9 million of non-capital loss carry-forwards. The non-capital loss carry-forwards expire $0.1 million in 2005, $1.0 million in 2006, $2.4 million in 2007, $1.3 million in 2008, $0.3 million in 2009 and $1.8 million in 2011.

10. Supplemental Cash Flow Information

Changes in non-cash working capital:		
Accounts receivable	$	(111)
Prepaid expenses and deposits		20,215
Accounts payables and accrued liabilities		2,494
Change in non-cash working capital	$	22,598
Relating to:		
Operating activities	$	2,418
Financing activities		4,899
Investing activities		15,281
Change in non-cash working capital	$	22,598

Interest and taxes paid:		
Interest paid	$	1,081
Taxes paid		-

11. Financial Instruments

Fair Value of Financial Instruments:

Financial instruments comprise accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and cash distributions payable. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. The Trust's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The fair value of the convertible debentures at December 31, 2004, based on quoted market value was $85.6 million.

Commodity Price Risk:

There were no financial instruments in place to influence realized commodity prices during the period ended December 31, 2004.

Credit Risk:

Portions of the Trust's accounts receivable are with joint operating partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Trust's oil and natural gas products are subject to an internal credit review designed to mitigate the risk of non-payment.

Interest Rate Risk:

The Trust is exposed to interest rate risk to the extent that changes in market interest rates will impact the Trust's bank debt which is subject to a floating interest rate. The Trust had no interest rate swaps or financial hedges at December 31, 2004.

Foreign Currency:

While substantially all of the Trust's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

12. Commitments

	2005	2006	2007	2008	2009
Office leases	$1,845	$1,845	$1,822	$ 633	$ -
Natural gas transportation	1,069	532	244	105	87
	$2,914	$2,377	$2,066	$ 738	$ 87

13. Related Party

Pursuant to the Administrative and Technical Services Agreement, Daylight Energy charged MOX $110,000 relating to general and administrative activities and $99,000 relating to capital expenditures for the period ending December 31, 2004. The Administrative and Technical Services Agreement has no set termination date and will continue until terminated by either party with three months written notice to the other party.

14. Subsequent Event

On February 9, 2005, Daylight and Flowing Energy Corporation ("Flowing") announced they had entered into an agreement whereby Daylight will acquire all of the issued and outstanding shares of Flowing on the basis of one trust unit of Daylight for every 13.45 Flowing common shares. Pursuant to the agreement, Flowing Shareholders will be entitled to receive up to a maximum aggregate of 480,000 exchangeable shares of Daylight Energy divided by the exchange ratio applicable to exchangeable shares at closing instead of trust units. As of March 24, 2005, Flowing had 42.7 million shares outstanding, which implies the issuance of 3.2 million trust units less the amount of exchangeable shares which Flowing shareholders elect to receive. A meeting of Flowing securityholders will be held on April 4, 2005 to approve the transaction.

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